



## Understanding the GPFS requirements for CBC reporting entities

Affected entities are required to prepare and lodge general purpose financial statements (GPFS) in respect of each relevant income year

Critical aspects of the 'GPFS requirements':

- The 'GPFS requirements' arising under the *Tax Administration Act 1953* for the lodgement of a 'general purpose financial statement' (GPFS requirements) first applied to income years beginning on or after 1 July 2016 for 'significant global entities'
- Changes to taxation law in May 2020 applying to income years or other periods commencing on or after 1 July 2019, transferred the GPFS requirements to another category of entity, 'CBC reporting entities', which are a subset of an expanded 'significant global entity' definition
- Broadly, CBC reporting entities, or members of a CBC reporting group with annual global income of A\$1 billion or more are subject to the GPFS requirements and must prepare and lodge GPFS in respect of each relevant income year and lodge them with either the Australian Securities and Investments Commission (ASIC) or with the Australian Tax Office (ATO)
- The requirements must be met by the due date of an affected entity's tax return. Failure to lodge GPFS may subject the entity to the significant penalties for significant global entities
- The interpretation of the requirements is complex and requires attention to the interaction of the law, ATO guidance and accounting requirements.

The GPFS requirements arising under taxation law are in addition to any other reporting requirements, but can be satisfied by lodging GPFS with ASIC

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## Abbreviations

The following abbreviations are used in this publication:

Abbreviation	Description
AASB	Australian Accounting Standards Board
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited
ATO	Australian Tax Office
ATO guidance	The guidance on GPFS for CBC reporting entities, CBC reporting entities and significant global entities issued by the ATO at <a href="http://www.ato.gov.au">www.ato.gov.au</a> (either individually or collectively as the context requires)
CAAP	Commercially accepted accounting principles as referred to in the ATO guidance and 'commercially accepted principles related to accounting' in the <i>Income Tax Assessment Act 1997</i> and <i>Tax Administration Act 1953</i> (see section A.4.7)
CBC reporting entity	'Country-by-country reporting entity' as defined in the <i>Income Tax Assessment Act 1997</i>
GPFS	General purpose financial statements
GPFS requirements	Requirement to lodge general purpose financial statements with the Australian Tax Office as required by s.3CA of the <i>Tax Administration Act 1953</i>
IFRS	International Financial Reporting Standards
ITAA 1997	<i>Income Tax Assessment Act 1997</i>
NLCG	Notional listed company group
SPFS	Special purpose financial statements
TAA	<i>Tax Administration Act 1953</i>
Tier 1	'Tier 1' financial reporting requirements as required by AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i>
Tier 2 (RDR)	Tier 2 of financial reporting requirements referred to as 'Australian Accounting Standards – Reduced Disclosure Requirements' in AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i> (as applicable to financial reporting periods beginning before 1 July 2021)
Tier 2 (SD)	Tier 2 of financial reporting requirements referred to as 'Australian Accounting Standards – Simplified Disclosures' in AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i> (as applicable to financial reporting periods beginning on or after 1 July 2021)

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### Introduction

The requirement to lodge general purpose financial statements under s.3CA of the *Tax Administration Act 1953* (the 'GPFS requirements') have been controversial since their introduction in a late night sitting in Federal Parliament in December 2015.

First applying to 'significant global entities' for income years beginning on or after 1 July 2016, the GPFS requirements gave rise to numerous interpretational issues. The ATO initially consulted on how the new law would be administered in 2016, and the guidance subsequently issued in 2017 was later updated in April 2019, many years after the first GPFS lodgement had already occurred.

Subsequently, in May 2020, the Federal Parliament expanded the definition of a significant global entity to address legal drafting issues and to capture a broader range of entities. However, as the new significant global entity definition was very broad, a new category of entity, a 'country by country reporting entity' (CBC reporting entity) was created, representing a subset of the new significant global entity definition. The GPFS requirements were transferred from significant global entities to CBC reporting entities, but the substantial penalties continue to apply to significant global entities in respect of non-compliance with the requirements. In response to these developments, the ATO published updated guidance on the revised legislation in late December 2020.

Whilst the GPFS requirements and its interpretation continues to evolve, the AASB also continued with its financial reporting framework project. During 2020, the AASB finalised amendments requiring most private sector for-profit entities that are required to prepare financial statements to prepare general purpose financial statements (GPFS), applying to annual reporting periods beginning on or after 1 July 2021. In addition, the AASB introduced a new 'Tier 2' reporting framework that also applied from the same date. Early adoption of these requirements is available and may be advantageous for certain entities.

With both the reporting mandate and reporting framework undergoing change over several years, the GPFS requirements present a challenge, and require careful thought and planning.

In this publication, we explain which entities are required to comply with the GPFS requirements and provide an overview of how compliance can be achieved.

***The introduction of the GPFS requirements has been fraught with many interpretational issues. The ATO guidance assists in answering many of these issues, whilst recent taxation law amendments and Accounting Standard setting have complicated compliance with the requirements***

# Part A – Understanding the GPFS requirements

## A.1 Roadmap



### Step 1 – Determine if the entity is a CBC reporting entity for tax purposes

The GPFS requirements can only apply to 'Country by country reporting entities' (CBC reporting entities) as defined under tax law. The key test in the legislation is to both correctly define the group and consider the amount of consolidated income of the CBC parent entity of the entity (or the entity itself), specifically whether that income is greater than A\$1 billion. However, there are considerations of what items are included in the determination of annual global income.



### Step 2 – Determine whether the CBC reporting entity might be captured by the GPFS requirements

The GPFS requirements only apply to 'corporate tax entities' lodging tax returns with the ATO, including 'permanent establishments' operating in Australia, and only where those entities have not already lodged GPFS with ASIC. Accordingly, an entity can be a CBC reporting entity but still not have to comply with the GPFS requirements.



### Step 3 – Where GPFS are required, understand the choices available

The enabling legislation for the GPFS requirements contemplates various options for satisfying the lodgement requirements, in terms of both the entity for which GPFS are lodged, and the accounting framework used in those GPFS.



### Step 4 – Determine whether the GPFS requirements apply to the entity's financial year

The requirements originally applied to significant global entities for income years beginning on or after 1 July 2016 and were transferred to CBC reporting entities with effect from income years or periods beginning on or after 1 July 2019. Additionally, there are a number of interpretational issues where entities are recently incorporated, change their financial years for financial reporting purposes, or join or leave tax-consolidated groups or multiple entry consolidated groups.



### Putting it all together

The section deals with the deadlines for lodgement, an overview of possible outcomes for various types of entities, summarising when entities are required to prepare GPFS in accordance with the GPFS requirements, and the options for complying with those requirements.

The sections that follow provide more detail on each of the above steps.



## Accessing relevant documentation

The *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015* which initially implemented the GPFS requirements is available at [www.legislation.gov.au](http://www.legislation.gov.au). The *Treasury Laws Amendment (2020 Measures No 1) Act 2020* which transferred the GPFS requirements from significant global entities to CBC reporting entities is also available at [www.legislation.gov.au](http://www.legislation.gov.au).

The full compiled version of the *Tax Administration Act 1953* is also available at [www.legislation.gov.au](http://www.legislation.gov.au).

The ATO guidance on the provision of general purpose financial statements is available at [www.ato.gov.au](http://www.ato.gov.au). Additional ATO guidance is also available on [country-by-country reporting entities](#) and [significant global entities](#). The latter guidance contains the explanation of many concepts that apply across all concepts (e.g. the determination of 'annual global income').

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## A.2 Step 1 – Determine if the entity is a CBC reporting entity for tax purposes

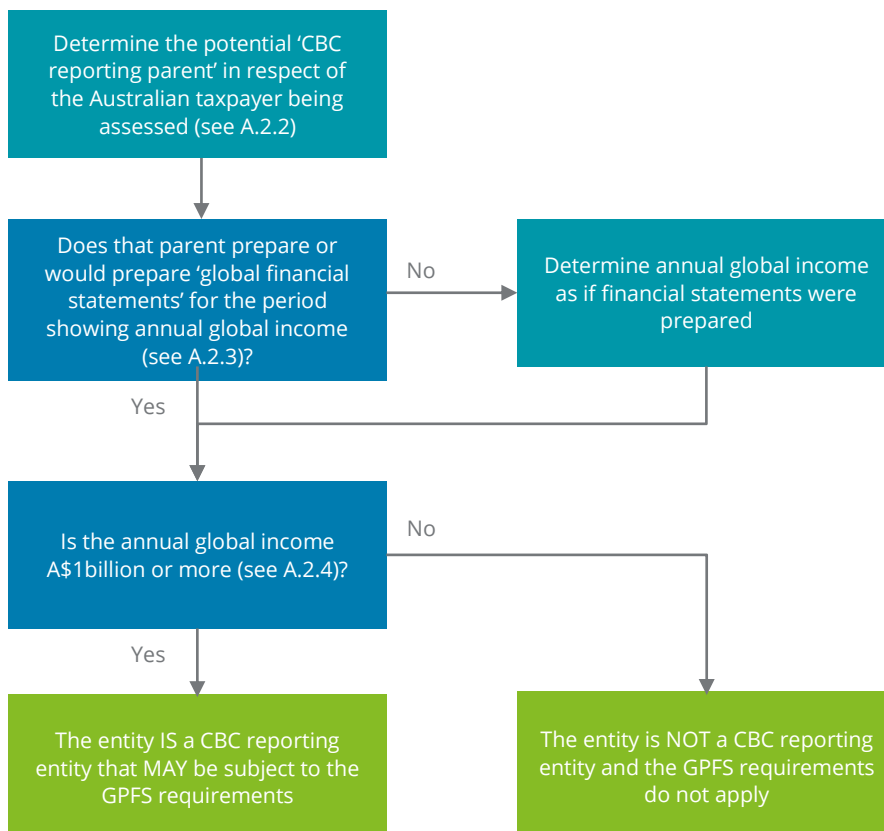
### A.2.1 Overview

Broadly, a CBC reporting entity is a parent entity, or a member of a 'CBC reporting group' (whether in Australia or elsewhere), that has annual global income of A\$1 billion or more. The definition of a CBC reporting entity focuses on identifying a 'CBC reporting parent' and determining whether the global financial statements of that parent discloses, or would disclose, annual global income exceeding the A\$1 billion threshold.

Each of the entities that are controlled by the CBC reporting parent and are, or would be (given certain assumptions), consolidated for accounting purposes, are members of the CBC reporting group. As such, a CBC reporting group comprises a group of entities that are consolidated for accounting purposes as a single group and/or a group of entities that would be a notional listed company group (NLCG), subject to some modifications.

A NLCG is a group of entities that would be required to be consolidated as a single group under applicable accounting rules if any member of the group (such as the parent entity) was a listed company (ITAA 1997 s.960-575). Because listed companies are required to prepare consolidated financial statements, the imposition of NLCG concept on a group results in a wider category of groups being brought into the CBC reporting entity definition. When compared to the significant global entity definition, the NLCG definition is also modified for CBC reporting entity purposes by taking into account exceptions to consolidation in the relevant accounting principles (other than an exception for immateriality where immaterial subsidiaries are either not consolidated or consolidated in name only) and excluding individuals.

The flowchart below outlines the legislative determination process to determine if an entity is CBC reporting entity:



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### A.2.2 What is a 'CBC reporting parent'?

For the purposes of determining whether an entity may be a CBC reporting entity, a 'CBC reporting parent' is an entity that is not an individual and is not controlled by another member of the CBC reporting group, which has annual global income of A\$1 billion or more (ITAA 1997 s.815-375(1)).

In applying this definition, the concept of control is determined applying Australian Accounting Standards or, where those standards do not apply, commercially accepted principles relating to accounting (ITAA 1997 s.815-375(1)(b)). However, a member of a CBC reporting group may not be consolidated in the CBC reporting parent's financial statements because it is immaterial for accounting purposes. In this situation, the entity remains a member of the CBC reporting group and therefore is a CBC reporting entity (where the group's annual global income exceeds A\$1 billion) (ITAA 1997 s.815-380, 960-575(4)(b)).

Where entities are members of two potential CBC reporting groups, they will be a member of the larger CBC reporting group (measured in respect to the group with the most members). This approach is intended to prevent duplication of CBC reporting requirements within what is effectively the same group.

Recognising that this concept of control may be difficult to determine, where control arises from one or more contractual arrangements, the ATO advises that the use of a suitably qualified practitioner may lower the risk of not correctly identifying a GPE, if the practitioner makes an adequately documented analysis and signs off on their assessment. Where relevant, the analysis would specifically include an assessment of the use of exceptions to consolidation under the relevant accounting standards.

Further the guidance indicates that an example of a suitably qualified practitioner would be a Chartered Accountant (CA) or Certified Practising Accountant (CPA) or a Company Auditor who is registered with ASIC. Any risk of a failing to correctly identify a GPE may be further mitigated where a qualified accountant provides an independent opinion on the issue. This could be done as part of an entity's regular governance process.

This means:

- There is no requirement that the CBC reporting parent be incorporated, registered, or otherwise operating in Australia (even though the Australian taxpayer assessing whether it is a CBC reporting entity may itself be incorporated, registered, or otherwise incorporated in Australia)
- A CBC reporting parent may be a trust or partnership and whilst these entities may not need to lodge GPFs themselves, their income is taken into account in determining whether the group exceeds the A\$1 billion annual global income threshold
- A CBC reporting parent can be an Australian entity if that entity is not controlled by another entity, i.e. the CBC reporting parent does not need to be a foreign entity
- A CBC reporting entity can be a single entity, i.e. there is no requirement for a consolidated group to exist for an entity to be a CBC reporting entity
- An entity directly owned and controlled by an individual can be a CBC reporting entity, i.e. it is the entity, not the individual, which is seen as the CBC reporting entity.

### A.2.3 What are 'global financial statements'?

Global financial statements used to determine annual global income for the CBC reporting parent must be prepared in accordance with Australian Accounting Standards (issued by the AASB) and where audited, audited in accordance with Australian Auditing Standards (issued by the Australian Auditing and Assurance Standards Board). Where these standards do not apply to the CBC parent entity, commercially accepted principles relating to accounting and auditing can be applied, so long as those principles ensure the financial statements give a true and fair view of the financial position and performance of the entity (or consolidated entity) (ITAA 1997 s.960-570).

In addition, the global financial statements must be for the most recent period (not necessarily the income year) for which they have been prepared and end no later than the end of the relevant period and no earlier than 12 months before the start of the relevant period. However, if the GPE does not keep and prepare accounts periodically then the relevant period to consider would be the GPE's income year. In the event a GPE does not have an income year, the period should be the income year of the Australian parent entity. Where the information is not in Australian dollars, the ATO guidance prescribes that translations of amounts included in the global financial statements be performed using average exchange rates for the period.

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### A.2.4 What is 'annual global income'?

The annual global income of a CBC reporting parent for a period is the total annual income of all the members of the group of entities that are, or would be, consolidated in the global financial statements in accordance with accounting principles.

As a CBC reporting group can be either a consolidated group and/or a NLCG, both types of groups need to consider their annual global income.

Actual preparation of financial statements is not required, but annual global income must be determined as if it were disclosed in those financial statements (which will be on a consolidated basis if the entity has subsidiaries which are required to be consolidated under the relevant accounting standards or under the assumption that one of the members of the group was a listed company). In other words, the annual global income must be determined even if global financial statements are not prepared and determined on a consolidated basis even if financial statements are not prepared on a consolidated basis.

Under the NLCG concept, the [ATO guidance explains that](#):

- An entity is assumed to be a company and treated as if it were listed in its jurisdiction of operation and had to apply the accounting standards that would apply to it under the relevant listing rules
- In making this assessment, the appropriate stock exchange is that on which the entity would be most likely to seek listing of its shares, having regard to factors such as the entity's tax residence, place of formation, regulatory context and financial market access.

These principles apply irrespective of whether there is a stock exchange in the jurisdiction in which the entity is resident.

Consideration of the wider NLCG concept might apply in situations such as the following:

- Entities that are, or are ultimately controlled by, entities that have no other requirement to prepare financial statements or are only required to prepare stand alone financial statements. This may apply to groups headed by trusts, partnerships, co-operatives and similar entities
- Entities controlled by foreign entities where that foreign entity has no obligation to prepare financial statements (or prepares stand alone financial statements) in the foreign jurisdiction
- Branches of foreign entities operating permanent establishments in Australia that do not have an obligation to prepare financial statements in their home jurisdiction
- Australian corporate groups where consolidated financial statements are not prepared, e.g. unlisted corporate entities that are not 'reporting entities' preparing stand-alone SPFS (i.e. without consolidating subsidiaries)<sup>1</sup>.

The legislation uses the term 'income' and uses it in the context of accounts prepared in accordance with Australian Accounting Standards, or if they do not apply, commercially acceptable principles (e.g. IFRS or local generally accepted accounting principles).

The ATO guidance on significant global entities<sup>2</sup> indicates that annual global income is the total income that goes to the determination of profit or loss in accordance with AASB 101 *Presentation of Financial Statements* including revenue and gains that go to the determination of profit or loss but excluding items included in other comprehensive income.

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<sup>1</sup> These entities may in any case be impacted by the AASB standards made in 2020 (AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*) requiring most private sector for-profit entities that are required to prepare financial statements to prepare GPFS for annual reporting periods beginning on or after 1 July 2021. In addition, the AASB introduced a new 'Tier 2' reporting framework that also applies from the same date.

<sup>2</sup> Available at [www.ato.gov.au](http://www.ato.gov.au). This guidance is also relevant for determining the annual global income for CBC reporting entities as the income concepts are effectively the same for both the significant global entity and CBC reporting entity definitions (as is confirmed in the ATO guidance on [country-by-country reporting entities](#)), the key difference being which consolidation exemptions are ignored for each definition, and which entities can be the ultimate parent. For the purposes of determining whether an entity is a significant global entity, the investment entity consolidation exemption is ignored when determining annual global income, and an individual can be a global parent entity. However, these do not apply when determining whether an entity is a CBC reporting entity, as the investment entity consolidation exemption is applied and the CBC parent entity



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The ATO guidance clearly intends a broad reading of “income”, meaning gains should be included in income when measuring a CBC reporting parent’s global annual income. Such gains are included as part of income on a net basis in accordance with the applicable accounting standards. Furthermore, the ATO guidance states that “the term ‘income’ for the purposes of annual global income includes the net amount (*whether positive or negative*), as long as that net amount is in accordance with the applicable accounting standards” (emphasis added). Therefore, in some cases, net losses may be included in (i.e. *reduce*) the overall annual global income.

Because net gains or losses may be one off or variable in nature, they may cause entities to move in and out of the CBC reporting entity definition from period to period as transactions occur.

Nothing in the definition of annual global income requires the entity to operate on a global basis. Accordingly, an Australian based entity that only operates in Australia can still be a CBC reporting entity if the A\$1 billion income threshold is met by the CBC reporting parent (which may be the entity itself).



### Thinking it through – Understanding the nature of ‘income’ under Australian Accounting Standards

‘Income’ is defined in the *Conceptual Framework for the Preparation and Presentation of Financial Statements* as increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims<sup>3</sup>.

Income encompasses both revenue and gains. Revenue is income that arises in the course of ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends and royalties. Gains include those arising on the disposal of non-current assets and businesses, and unrealised gains such as financial instruments measured at fair value through profit or loss, certain investment properties measured at fair value under AASB 140 *Investment Property* and biological assets measured at fair value less cost to sell under AASB 141 *Agriculture* and foreign exchange gains (sometimes reported as ‘other income’ in the financial statements).

Because of the ATO guidance permitting net gains *and losses* to be included in the determination of annual global income (discussed above), the principles in the ATO guidance should be followed when determining whether an entity is a CBC reporting entity.

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cannot be an individual (but can be a company, trust, partnership or other entity). Furthermore, under both definitions, immaterial subsidiaries not consolidated, and the lack of consolidated financial statements of a parent, do not preclude the entity from meeting the definition.

<sup>3</sup> The revised *Conceptual Framework for Financial Reporting* was issued by the AASB in May 2019, and initially applied to for-profit private sector entities with public accountability for annual reporting periods beginning on or after 1 January 2020. Subsequently, AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* extended its application to additional for-profit entities for reporting periods beginning on or after 1 July 2021. The previous framework defined income as “increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants”. The differences in the definition of income between the two frameworks are not expected of themselves to have a broad impact on the nature of items classified as income for GPFS requirements.



### Additional guidance – Investment entities

In Law Companion Rule [LCR 2015/3](#), the ATO confirmed, under the original significant global entity requirements (before the introduction of the CBC reporting entity concept), that controlled entities of a global group that are not included in a global parent entity's financial statements (e.g. due to investment entity consolidation exemptions under the relevant accounting principles) will not meet the definition of a significant global entity<sup>4</sup>.

For instance, under AASB 10 *Consolidated Financial Statements*, a global parent entity that is an investment entity is not permitted to consolidate certain subsidiaries. Such subsidiaries would therefore not have been significant global entities under the original significant global entity definition. However, the global parent entity could have still been a significant global entity if its annual global income was A\$1 billion or more (including revaluation gains arising from measuring investments at fair value under AASB 10, which may reflect the impact of the underlying performance of the subsidiaries through the fair value measurement process).

Although this guidance was initially written in relation to significant global entities, it remains relevant for the determination of whether an entity is a CBC reporting entity (as is confirmed in the ATO guidance on [country-by-country reporting entities](#)). Although the investment entity consolidation exemption is ignored for the purposes of determining whether an entity is a significant global entity, it is applied for the purposes of determining whether an entity is a CBC reporting entity (ITAA 1997 s.815-380(6), s. 960-575). Accordingly, an entity that is not consolidated by a parent due to the parent applying the investment entity consolidation exemption will not be a CBC reporting entity unless it meets the A\$1 billion threshold for its own annual global income. Such an entity may however be a significant global entity, but it will not be required to prepare GPFS unless it is also a CBC reporting entity.

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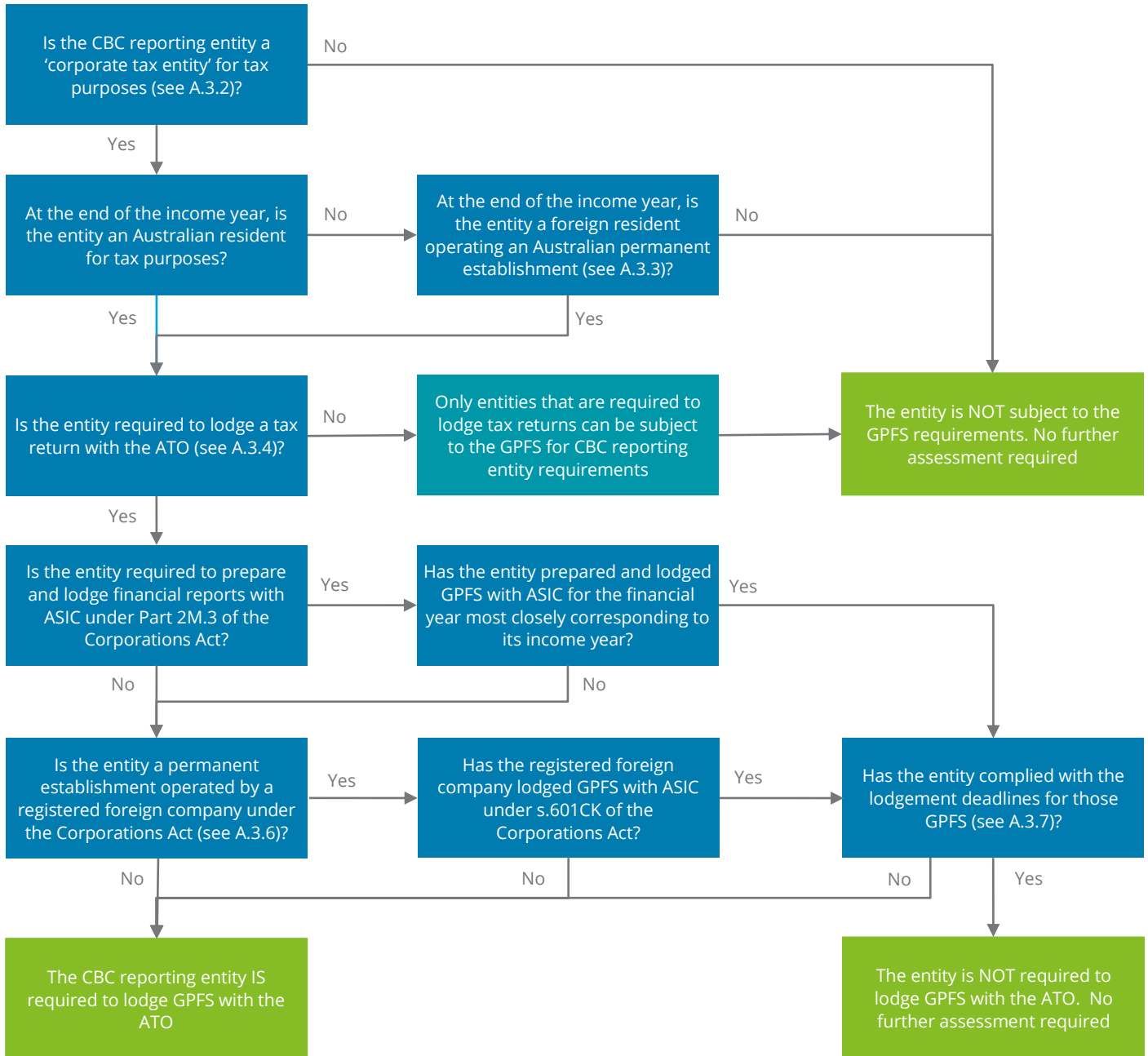
<sup>4</sup> Generally speaking, a significant global entity is a global parent entity with an annual global income of A\$1 billion or more; or any member of such a global parent entity's group. At the date of this publication, the guidance in LCR 2015/3 has not been updated to reflect the changes to the definition of significant global entities and the introduction of the CBC reporting entity concept. More information about the revised definition of a significant global entity, see our Tax Insights publication *Expanded Definition of Significant Global Entity*, available at [www.deloitte.com.au](http://www.deloitte.com.au).



## A.3 Step 2 – Determine whether the CBC reporting entity might be captured by the GPFS requirements

### A.3.1 Overview

Having determined an entity is a CBC reporting entity, the next step is to determine whether the entity is subject to the GPFS requirements. The flowchart below outlines the decision process in making this determination.



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### A.3.2 What is a corporate tax entity?

The *Income Tax Assessment Act 1997* includes the following types of entities as being 'corporate tax entities' (ITAA 1997 s.960-115):

- Companies
- Corporate limited partnerships
- Public trading trusts.

Only these types of entities can be captured by the GPFS requirements<sup>5</sup>. Accordingly, partnerships (other than corporate limited partnerships), trusts and non-corporate entities are generally not considered corporate tax entities and therefore cannot be subject to the GPFS requirements.

### A.3.3 Australian permanent establishments

The interpretation of 'permanent establishment' under the *Income Tax Assessment Act 1997* and *Income Tax Assessment Act 1936* is complex and subject to judgement. Foreign entities operating in Australia need to assess carefully whether they are captured by these requirements in determining whether the GPFS requirements apply. See also the ATO's specific guidance on how permanent establishments can comply with the GPFS requirements in 'Thinking it through – Permanent establishments' on page 19.

### A.3.4 Requirement to lodge a tax return

Because the GPFS requirements links the timeframe for compliance to the lodgement of the entity's tax return (TAA s.3CA(2)), the ATO guidance takes the view that only entities required to lodge a tax return with the ATO for a particular income year can be subject to those requirements for that period.

Accordingly, an entity may be a CBC reporting entity but will not be required to lodge GPFS with the ATO because the entity is not required to lodge a tax return.



#### Thinking it through – Members of tax-consolidated groups or multiple entry consolidated groups

The ATO guidance deals with the situation where an Australian entity is a member of a tax-consolidated group or multiple entry consolidated (MEC) group. The ATO guidance concludes that members of tax-consolidated or MEC groups are not required to lodge a tax return and so are **not** required to provide a GPFS to the ATO under the GPFS requirements. There are, however, specific considerations in respect of entities joining or leaving such groups during an income year (see below).

The only taxpayer lodging a tax return in these groups is the head entity in the tax-consolidated group or MEC group, and it is for this entity that the GPFS requirements can be triggered. The ATO guidance effectively takes the view that linking the timeframe for compliance with the GPFS requirements to the lodgement of the entity's tax return, the entity must have an obligation to lodge a tax return to be impacted by the requirements.

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<sup>5</sup> Note that the CBC reporting requirements under tax law can still apply to CBC reporting entities that are not corporate tax entities. For more information about CBC reporting requirements, [see www.ato.gov.au](http://www.ato.gov.au).



### Thinking it through – Joining or leaving a tax-consolidated group or multiple entry consolidated (MEC) group

The determination of whether an entity is captured by the GPFS requirements is made at the end of the entity's income year but is also impacted by whether the entity is an income taxpayer (and so required to lodge a tax return) in respect of any part of the income year. Accordingly, where entities join or leave corporate groups (or tax-consolidated groups) during a period, this can affect whether or not the GPFS requirements applies to the entity.

This approach can result in many, perhaps unexpected, outcomes, e.g.:

- If an entity joins a corporate group during the year and was a 'corporate taxpayer' that had an obligation to lodge a tax return in respect of any part of the year, the entity can be captured by the GPFS requirements if the CBC parent entity of the group to which it belongs at the end of the income year has annual global income exceeding A\$1 billion, making the joining entity a CBC reporting entity. This applies even though the entity may not be a taxpayer within the context of the group (e.g. joining the tax-consolidated group of the new Australian parent, or joining a multiple entry consolidated group, where the joining entity is not the head entity). The fact that the entity has an obligation to lodge a tax return for the period it was not part of the group is sufficient to trigger the GPFS requirements
- Entities which move between tax-consolidated groups or MEC groups, but which are **not** a member of those groups for the entire year (and so were a taxpayer for part of the income year) will be captured where the entity's global parent entity at the end of the income year triggers the GPFS requirements.

Entities which leave a corporate group during a year, but which are not part of a group at the end of the year will only be captured by the GPFS requirements if they meet the criteria in their own right at the end of the relevant period.

### A.3.5 Lodgement of GPFS with ASIC under Part 2M.3 of the *Corporations Act 2001*

The GPFS requirements only apply if a CBC reporting entity has not lodged GPFS with ASIC for the financial year most closely corresponding to the income year. Accordingly, if an entity is obliged to prepare and lodge financial reports with ASIC under the *Corporations Act 2001*, lodgement of those GPFS with ASIC results in the entity then avoiding the GPFS requirement to lodge GPFS with the ATO.

The types of entities generally required to prepare and lodge financial reports with ASIC under Part 2M.3 of the *Corporations Act 2001* include:

- Public companies
- Large proprietaries
- Small proprietary companies controlled by a foreign company
- Registered schemes
- Entities undertaking crowd-source funding
- Notified foreign passport funds.

Financial reports prepared under the *Corporations Act 2001* may not always be prepared as GPFS, especially prior to the introduction of the GPFS requirements and the application of AASB 2020-2 and AASB 1060.

The obligation to prepare and lodge financial reports can be relieved by a number of ASIC Corporations Instruments and Class Orders, including:

- *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204*, which exempts certain foreign-owned small proprietary companies, provided certain conditions are met
- *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, which exempts certain wholly-owned subsidiaries, provided certain conditions are met.

In addition, certain 'grandfathered exempt proprietary companies' are not required to lodge financial reports with ASIC.

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### Thinking it through – Dual lodgement relief

Entities that are listed on eligible financial markets (such as the Australian Securities Exchange (ASX)) can take advantage of *ASIC Corporations (Electronic Lodgment of Financial Reports) Instrument 2016/181*. Under this relief, lodgement of financial reports (and other information) with the operator of the financial market is taken to be lodgement with ASIC. The question then becomes whether or not entities taking advantage of the Corporations Instrument which technically have not lodged a GPFS with ASIC are required to lodge GPFS with the ATO under the GPFS requirements.

Updates to the ATO guidance in April 2019 clarified that an entity will be considered to have lodged GPFS with ASIC when an entity taking advantage of Corporations Instrument 2016/181 has lodged GPFS with the operator of an eligible financial market.



### Additional guidance – Australian financial reporting guide

More information about the financial reporting requirements of the *Corporations Act 2001* and how they are impacted by ASIC instruments can be found in our *Australian financial reporting guide*. The guide is available at [www.deloitte.com/au/models](http://www.deloitte.com/au/models).

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## A.3.6 Permanent establishments operated by registered foreign companies

Only certain foreign companies are required to be registered as 'registered foreign companies' under the *Corporations Act 2001* (specifically Part 5B.2 of the Act). This may be the case where a foreign entity operates a branch in Australia.

Only registered foreign companies can lodge financial reports under s.601CK of the *Corporations Act 2001*. In other words, ASIC cannot accept the lodgement of financial reports of foreign entities unless the entity is required to be registered as a registered foreign company<sup>6</sup>.

The ATO guidance on the GPFS requirements takes the view that where a foreign registered company operates a permanent establishment and lodges GPFS under s.601CK (within the appropriate deadlines), there is no obligation to lodge GPFS with the ATO under the GPFS requirements.

## A.3.7 Requirement to lodge with ASIC within given timeframes

The GPFS requirements do not apply to an entity where the entity has already lodged GPFS with ASIC within the time provided under s.319(3) of the *Corporations Act 2001*. The deadline in s.319(3) for lodgement of financial reports with ASIC prepared under Part 2M.3 of the *Corporations Act 2001* is generally three or four months after the end of the entity's financial year, depending on the nature of the entity.

The ATO guidance contains administrative relief for late lodgement with ASIC. Under this relief, the ATO will accept that a CBC reporting entity has satisfied its GPFS obligations where the entity lodges GPFS with ASIC after the deadline in s.319(3) but *before* the due date for lodgement of the entity's income tax return for the relevant period. Where the relief is adopted, the entity is required to notify the ATO of the late lodgement. Updates to the guidance made in April 2019 explicitly provided that this relief applies to registered foreign companies lodging GPFS under s.601CK (see section A.4.5).

Accordingly, as long as an entity has lodged GPFS with ASIC before the due date of its income tax return for the relevant period (see section A.6.1), and also notified the ATO of any late lodgement (as noted in the ATO guidance), there is no obligation to prepare and lodge GPFS with the ATO. Where the entity has a substituted accounting period for tax purposes, equivalent timelines will apply based on the timeline for the lodgement of the entity's tax return.

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<sup>6</sup> This is confirmed in ASIC Regulatory Guide 58 *Reporting by registered foreign companies and Australian companies with foreign shareholders* (available at [asic.gov.au](http://asic.gov.au), see RG 58.11).

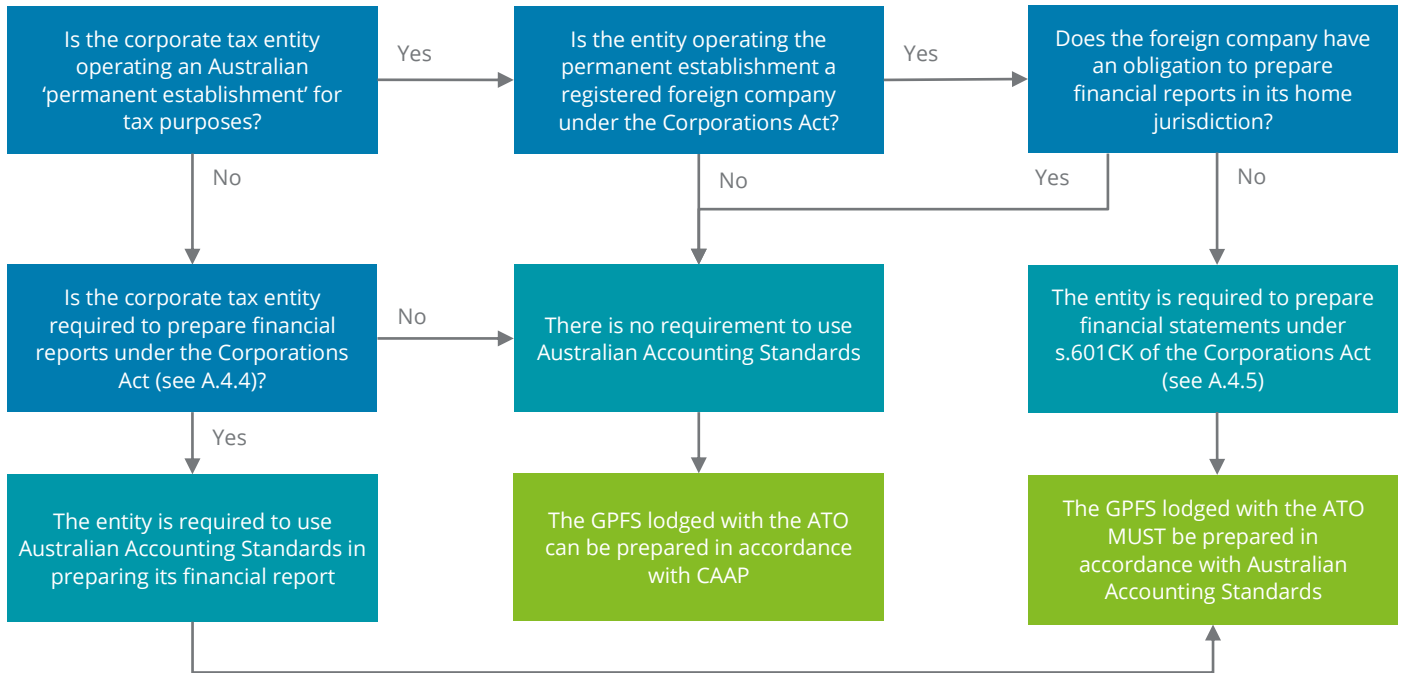


## A.4 Step 3 – Where GPFS are required, understand the choices available

### A.4.1 Overview

The GPFS requirements effectively include several choices as to how to achieve compliance.

The flowchart below summarises the decision making process to determine which accounting standards should be applied in the preparation of GPFS to be lodged with the ATO, considering the requirements of the law and the ATO guidance. This section also deals with determining the entity for which GPFS are prepared, as the two concepts are linked.



### A.4.2 Legislative definition of ‘general purpose financial statement’

Section 3CA(5) of the *Tax Administration Act 1953* provides the following:

*For the purposes of this section, a general purpose financial statement in relation to an entity:*

- (a) *must be prepared in accordance with:*
  - (i) *the accounting principles, or*
  - (ii) *if the accounting principles do not apply in relation to the entity – commercially accepted principles relating to accounting; and*
- (b) *if the entity is a member of a group of entities that are consolidated for accounting purposes as a single group – must relate to:*
  - (i) *the entity; or*
  - (ii) *the entity and some or all of the other members of the group.*

Because the legislation contemplates compliance being achieved in various ways, entities may, depending on their circumstances, have choices in:

- Which accounting standards are used in the preparation of GPFS lodged to meet the GPFS requirements, i.e. Australian Accounting Standards (by virtue of the definition of “accounting principles”) or CAAP (discussed further at section A.4.7)
- Which entity prepares GPFS in meeting the GPFS requirements, i.e. the taxpayer itself (stand-alone financial statements), or consolidated financial statements that consolidate the entity (either consolidated GPFS for the entity itself, or a parent) (discussed further at section A.4.6).

Because of the lack of clarity in the legislation dealing with these choices and their applicability, the ATO guidance was developed to provide the ATO’s views on how it will administer these matters.

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### A.4.3 Understanding the basis of the ATO guidance

In essence, the ATO guidance focuses on how the references to 'entity' are to be understood when complying with the GPFS requirements.

In summary, the guidance takes the following approach as to how to determine the nature and form of GPFS for the purposes of the GPFS requirements:

- The relevant entity is the 'CBC reporting entity' caught by the GPFS requirements, i.e. the Australian entity that is either an Australian corporate tax entity or a foreign resident corporate tax entity that operates an Australian permanent establishment (i.e. the affected taxpayer)
- The relevant entity must consider the relevant accounting principles that apply to it as an entity, and where those principles would apply because of the *Corporations Act 2001*, this will require the application of Australian Accounting Standards.

In practical terms, the ATO guidance provides a very strict reading of the requirements in section 3CA(5), by linking 'CBC reporting entity' to the corporate tax entity which is subject to Australian tax. Accordingly, many CBC reporting entities are likely to be required to prepare GPFS in accordance with Australian Accounting Standards (whether the GPFS are prepared for the entity itself or a parent because the corporate tax entity will have a financial reporting requirement under the *Corporations Act 2001* to prepare financial statements in accordance with Australian Accounting Standards, see section A.4.6)<sup>7</sup>.

The discussion below sets out how the ATO's views are applied in practice.

### A.4.4 Entities with a reporting obligation under Part 2M.3 the *Corporations Act 2001*

Australian Accounting Standards generally apply in relation to all entities with an obligation to prepare financial reports under Part 2M.3 of the *Corporations Act 2001* (see section A.3.5), due to requirements of s.296<sup>8</sup>.

As a result, Australian Accounting Standards must be applied in preparing the GPFS that are for, or include, the tax payer entity, regardless for which entity those GPFS are being prepared. For example, an entity with a reporting obligation under Part 2M.3 wishing to lodge a global parent's GPFS, would have to prepare those GPFS in accordance with Australian Accounting Standards regardless of which accounting standards the global parent would otherwise apply<sup>9</sup>. Converting the financial statements of a foreign parent to be compliant with Australian Accounting Standards is not necessarily a straightforward process (see section B.4.5).

However, the ATO guidance takes the view that compliance with Australian Accounting Standards will not automatically be required in circumstances where ASIC has otherwise relieved the entity, through a Corporations Instrument or Class Order, from preparing financial reports under Part 2M.3 of the *Corporations Act 2001*. In these cases, the GPFS lodged will *not* have to comply with Australian Accounting Standards unless it is required to do so for other reasons.

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<sup>7</sup> The 'transitional administrative approach' was available for the first year of compliance with the GPFS requirements (see section A.4.8).

<sup>8</sup> There are exceptions, such as certain small proprietary companies preparing financial reports by direction and notified foreign passport funds. However, for the purposes of the GPFS requirements, these exceptions are unlikely to be applicable and Australian Accounting Standards would apply to the entity.

<sup>9</sup> The 'transitional administrative approach' was available for the first year of compliance with the GPFS requirements (see section A.4.8).



## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

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### Thinking it through – Wholly-owned entities

Entities within wholly-owned groups can, subject to meeting various conditions contained in *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, avoid the need to prepare and lodge financial reports under Part 2M.3 of the *Corporations Act 2001*. The holding entity in the group under the order can be an Australian entity or a registered foreign company. If that entity is also a taxpayer that is subject to the GPFS requirements, the accounting standards to use in the GPFS lodged with the ATO depends on the status of the holding entity:

- If the holding entity is an Australian entity – the GPFS must be prepared in accordance with Australian Accounting Standards
  - If the holding entity is a registered foreign company – the GPFS may be prepared in accordance with CAAP or Australian Accounting Standards.
- 



### Thinking it through – Grandfathered large proprietary companies

'Grandfathered exempt proprietary companies' are exempt from the requirement to lodge their financial reports with ASIC. However, such companies are still required to *prepare* financial reports in accordance with Part 2M.3 of the *Corporations Act 2001*. Because of the general requirement for financial reports prepared under Part 2M.3 to be prepared in accordance with Australian Accounting Standards, such entities are also required to prepare GPFS in accordance with Australian Accounting Standards if they are subject to the GPFS requirements (i.e. are a CBC reporting entity).

Furthermore, the requirement to lodge GPFS with the ATO under the GPFS requirements is *not* overridden by such entities' grandfathered status. Accordingly, grandfathered large proprietary companies that are CBC reporting entities are required to lodge GPFS with the ATO regardless of their exempt status under the *Corporations Act 2001*.

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### Thinking it through – Foreign controlled small proprietary companies

Chapter 2M.3 of the *Corporations Act 2001* requires, in certain circumstances, a foreign controlled small proprietary company to prepare and lodge a financial report with ASIC, and to prepare that financial report in accordance with Australian Accounting Standards.

However, a foreign controlled small proprietary company is not required to prepare and lodge a financial report with ASIC if it is consolidated for the relevant financial year in financial statements for that year lodged with ASIC by a registered foreign company or a company, registered scheme or disclosing entity. Accordingly, if that entity is a CBC reporting entity that is required to lodge a tax return with the ATO, it can prepare GPFS for lodgement with the ATO using CAAP, including the option of lodging a foreign parent's consolidated GPFS prepared in accordance with CAAP.

Additionally, *ASIC Corporations (Foreign Controlled Company Reports) Instrument 2017/204* relieves certain foreign controlled small proprietary companies from their financial reporting obligation under Chapter 2M.3 where that entity is not part of a 'large group' (as defined in the Instrument). The premise of a 'large group' is linked to the concept of a small proprietary company under the *Corporations Act 2001*. In essence, relief is only provided to foreign owned small proprietary companies from where the economic presence of the foreign parent in Australia in total (across all entities and operations) is less than the small proprietary company thresholds.

Accordingly, the accounting standards to be applied in GPFS lodged for the GPFS requirements will depend upon whether or not the entity is eligible to, and has taken advantage of, the relief in the Corporations Instrument:

- Foreign owned small proprietary companies which have taken advantage of the Instrument can use Australian Accounting Standards or CAAP
- All other foreign owned small proprietary companies must use Australian Accounting Standards.

The *Corporations Amendments (Proprietary Company Thresholds) Regulations 2019* were enacted in April 2019 and have the effect of doubling the threshold tests previously applied, with effect from 1 July 2019. This means that more foreign owned entities have become small proprietary companies, and more 'groups' (as defined in the Instrument) are able to meet the thresholds in the Instrument for the 2019-2020 and later financial years. Accordingly, those entities are not required to prepare any GPFS lodged with the ATO under the GPFS requirements in accordance with Australian Accounting Standards, and may instead use CAAP, including the option of lodging a foreign parent's consolidated GPFS prepared in accordance with CAAP.

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## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### A.4.5 Registered foreign companies reporting under s.601CK of the *Corporations Act 2001*

A registered foreign company may operate a permanent establishment in Australia and so be subject to the GPFS requirements (see section A.3.6).

The interaction of the registered foreign company provisions with the GPFS requirements depends upon whether the registered foreign company is required to prepare financial statements in its own jurisdiction:

- **Registered foreign company is *not* required to prepare financial statements in its jurisdiction.** In these circumstances, the company will be subject to subsections 601CK(5), (5A) and (6) of the *Corporations Act 2001*. These subsections require the entity to prepare the financial statements to be lodged with ASIC as if it was a public company required to comply with Part 2M.3. As public companies are required to apply Australian Accounting Standards (see section A.4.4), the GPFS lodged with the ATO for these entities must also be prepared in accordance with Australian Accounting Standards
- **Registered foreign company is required to prepare financial statements in its jurisdiction.** In these circumstances, the GPFS to be lodged with the ATO can be prepared in accordance with Australian Accounting Standards or CAAP. This is because s.601CK does not impose a requirement to prepare the information lodged with ASIC in accordance with Australian Accounting Standards.

Some closely held registered foreign companies that are not part of a 'large group' may be eligible for relief from s.601CK of the *Corporations Act 2001* under *ASIC Corporations (Foreign Controlled Company Reports) Instrument 2017/204*. In these cases, the GPFS lodged with the ATO can be prepared in accordance with Australian Accounting Standards or CAAP as the requirements in subsections 601CK(5), (5A) and (6) will not apply to the entity.

Other permanent establishments operated by foreign entities that are not registered foreign companies are not subject to the above considerations and have a choice of which accounting standards are applied in preparing their GPFS, i.e. Australian Accounting Standards or CAAP.



#### Thinking it through – Permanent establishments

The ATO guidance notes that the GPFS of a foreign resident conducting a business through a permanent establishment cannot be stand-alone GPFS for the permanent establishment itself. Instead, the GPFS of the foreign resident (incorporating the permanent establishment) must be prepared for the entire entity.

Furthermore, the ATO encourages separate measurement and disclosure of the Australian permanent establishment in GPFS, and also notes if those GPFS are denominated in a currency other than Australian dollars, they do not need to be re-denominated into Australian dollars.

The ATO's interpretation of how permanent establishments comply with the GPFS requirements is controversial, in that a financial report for the permanent establishment itself cannot be prepared and lodged. The suggestion of including information about the permanent establishment in the notes to the GPFS prepared for the entity operating the permanent establishment further complicates compliance.

Impacted entities need to ensure they understand when they are captured by the requirements and how they can ensure compliance considering the ATO guidance.

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## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### A.4.6 Options on the GPFS to be lodged

The ATO guidance acknowledges that there are several ways to satisfy the GPFS requirements when preparing and lodging GPFS.

Depending upon the nature of the entity, the following GPFS may be able to be lodged:

- **GPFS of the affected taxpayer**<sup>10</sup>, consolidated for accounting purposes as a single group (i.e. consolidated in accordance with relevant accounting standards including all subsidiaries of the entity required to be consolidated under AASB 10, including any relevant offshore subsidiaries and branches, unless a consolidation exemption applies)
- **GPFS of the affected taxpayer, prepared for the entity alone** (the ATO guidance refers to these as 'stand-alone GPFS'), subject to any relevant accounting standard requirements (see Appendix A)
- **GPFS of a parent of the affected taxpayer**, which includes the financial position and financial performance of the affected taxpayer, i.e. consolidates the affected taxpayer. The updates to the ATO guidance made in April 2019 clarified that these consolidated financial statements can be for any parent of the affected taxpayer, i.e. it does not need to be the ultimate Australian or global parent, but can be any parent of the entity preparing consolidated GPFS.

The critical point is that the GPFS for any of the above entities must be prepared in accordance with Australian Accounting Standards<sup>11</sup> if the affected taxpayer is:

- Subject to Part 2M.3 of the *Corporations Act 2001*, i.e. has an obligation to prepare financial reports where that obligation has not been relieved by an ASIC Corporations Instrument or Class Order
- Subject to s.601CK(5), (5A) and (6) of the *Corporations Act 2001*, i.e. is a registered foreign company that does not have an obligation to prepare financial reports in its own jurisdiction and is therefore required to prepare financial reports in accordance with Australian Accounting Standards unless relieved by an ASIC Corporations Instrument<sup>12</sup>
- Otherwise has a requirement to prepare financial reports in accordance with Australian Accounting Standards.

The obligation to prepare GPFS in accordance with Australian Accounting Standards applies when lodging those GPFS with the ATO in accordance with the GPFS requirements, regardless of whether the entity for which those GPFS are being prepared would otherwise be subject to a different reporting framework. For example, if an affected taxpayer has a reporting obligation under the *Corporations Act 2001* and has a U.S. parent, if it chooses to lodge the consolidated GPFS of that parent in meeting the GPFS requirements, those GPFS would need to be prepared in accordance with Australian Accounting Standards.

Other affected taxpayers (i.e. an Australian corporate tax entity that has no obligation to prepare financial statements in accordance with Australian Accounting Standards) have some choice in which accounting principles are applied (see section A.6.3 and the examples in Appendix A). Therefore, if the affected taxpayer does not have an obligation to prepare financial reports in accordance with Australian Accounting Standards, it may choose to use Australian Accounting Standards CAAP.

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<sup>10</sup> However, note the ATO's views on preparing GPFS for permanent establishments discussed on page 13.

<sup>11</sup> The 'transitional administrative approach' was available for the first year of compliance with the GPFS requirements (see section A.4.8).

<sup>12</sup> Registered foreign companies can in some cases take advantage of the relief in *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204* (available at [www.legislation.gov.au](http://www.legislation.gov.au)) and accordingly, not have a requirement to lodge under s.601CK of the *Corporations Act 2001*. In these cases, s.601CK(5), (5A) and (6) do not apply to the entity and accordingly, any GPFS lodged with the ATO would *not* be required to be prepared in accordance with Australian Accounting Standards.

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### A.4.7 What are 'commercially accepted accounting principles' (CAAP)?

The ATO guidance indicates that the following accounting standards and principles will be accepted as CAAP for the purposes of the GPFS requirements:

- IFRS
- Accounting standards that are IFRS compliant as published on IFRS.org (such as Australian Accounting Standards or IFRS as adopted by the European Union)
- US generally accepted accounting principles (GAAP)
- Accounting standards that are accepted by the ASX from time to time for the purposes of the ASX Listing Rules.

Where other accounting standards listed above do not apply in an entity's particular circumstances, the ATO guidance indicates that the principles and guidance provided in Australian Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements* can assist in determining whether the accounting standards applied in preparing GPFS are accepted as CAAP.

### A.4.8 ATO's transitional administrative approach for the first year of the original legislation being operative

The ATO adopted a transitional administrative approach for the first year the originally enacted GPFS requirements were operative (i.e. income years commencing on or after 1 July 2016)<sup>13</sup>. As this period has passed, this is noted in summary terms only as they are no longer applicable.

There were two transitional provisions:

- Relief permitting financial statements lodged with the ATO to be in accordance with CAAP, where they would otherwise be required to be prepared in accordance with Australian Accounting Standards
- An extension of time to lodge GPFS with the ATO in some circumstances for an entity's income tax ended on 30 June 2017.

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<sup>13</sup> The ATO amended the transitional administrative approach in April 2019 to clarify that it was intended to operate broadly, and not apply to a subset of entities subject to the GPFS requirements. This permitted a greater population of entities to lodge GPFS using CAAP in their first year of compliance. The transitional administrative approach can be found at <https://www.ato.gov.au/Business/Public-business-and-international/General-purpose-financial-statements/Transitional-administration-approach-for-GPFS/>



## **A.5 Step 4 – Determine whether the GPFS requirements apply to the entity’s financial year**

### **A.5.1 Understanding ‘financial year’ for the purposes of GPFS requirements**

Section 3CA(2) of the *Tax Administration Act 1953* contains the following requirements:

*“A corporate tax entity to which this section applies for an income year must, on or before the day by which the entity is required to lodge its income tax return for the income year with the Commissioner, give to the Commissioner in the approved form a general purpose financial statement for the financial year most closely corresponding to the income year.”*

This section links the lodgement of GPFS with the lodgement of the entity’s tax return for the relevant period (see section A.6.1). An entity’s income year for tax purposes may be different from its financial year for financial reporting purposes.

Sections 3CA(1) and (2) of the *Tax Administration Act* refer to the term “financial year”, which is further defined later in s.3CA(6) by cross-reference to the *Income Tax Assessment Act 1997*. That Act defines financial year as “a period of 12 months beginning on 1 July”. In other words, on a technical reading of the requirements of the section, entities with substituted accounting periods for tax purposes might be seen as needing to lodge GPFS for a financial year ending on the 30 June most closely corresponding to their adopted income year.

However, the ATO guidance puts forward the ATO’s view that “if you are subject to Chapter 2M of the *Corporations Act 2001*, ‘financial year’ in section 3CA means the financial year as defined in section 323D of that Act”. In other words, the ATO believes that because the wording in section 3CA is referencing the requirement to lodge financial reports under the *Corporations Act 2001*, the meaning of ‘financial year’ should also be read as referencing the *Corporations Act 2001* rather than the *Income Tax Assessment Act 1997*.

Furthermore, for other corporate tax entities (i.e. those not subject to Chapter 2M of the *Corporations Act 2001*), the ATO guidance says, for the purposes of the GPFS requirements, the financial year will be identical to the annual accounting period adopted. The guidance goes on to clarify that the accounting period and the ‘financial year’ may not necessarily start on 1 July and that the financial year may not necessarily align with an entity’s income year.

### **A.5.2 Determining the most closely corresponding financial year**

The ATO guidance indicates that the ‘financial year most closely corresponding to the income year’ will generally be the financial year most recently concluded *on or before* the end of the income year.



#### **Lodging GPFS of a foreign parent with a different financial year to the affected taxpayer – Example**

Company M has an income year and financial year ending on 31 December 20X6 and is a CBC reporting entity. M is wholly-owned by a foreign parent, Company N, which has a financial year ending in March and prepares GPFS in accordance with CAAP.

M has taken advantage of *Corporations Instruments (Foreign-Controlled Company Reports) Instrument 2017/204* and accordingly, is relieved of an obligation to prepare and lodge financial reports with ASIC. In order to meet its obligations under the GPFS requirements, M intends to lodge the consolidated GPFS of N with the ATO.

In respect of M’s income year ending 31 December 20X6, the most closely corresponding financial year of N is the year ending 31 March 20X6, as this is the financial year of N concluded on or before the end of M’s income year. The consolidated GPFS of N for the financial year ending 31 March 20X7 will be the most closely corresponding for M’s financial year ending on 31 December 20X7.

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### A.5.3 Changes in financial years

Companies incorporated under the *Corporations Act 2001* can or must change their financial year for financial reporting purposes, e.g. to align their financial year with a new parent entity, or to better align financial reporting with the entity's business cycle or industry peers.

In these cases, identifying the 'financial year most closely corresponding to the income year' can be difficult because the financial year may cover more than one income year, particularly where the entity extends its financial year. Amendments made to the ATO guidance in April 2019 clarified how the relevant financial year is to be determined for GPFS requirements purposes.

The ATO guidance illustrates that where an extended financial year covers the entity's original financial year (and income year), the GPFS for the financial year may be for a period ending *after* the end of the entity's income year. This is an exception to the normal approach where the GPFS must be for a period ending *on or before* the end of the income year.



#### Changing financial years – Example

Company P has an income year and financial year ending on 30 June 20X1. In May 20X1, Company P is acquired by Company Q and joins Q's tax-consolidated group. Company Q has a financial year ending on 30 September 20X1 and Company P's financial year is extended to end on this date in accordance with the requirements of the *Corporations Act 2001*. Company P is a CBC reporting entity required to comply with the GPFS requirements.

Company P has an obligation to lodge its income tax return for the 12 months ended 30 June 20X1. However, the entity's financial year no longer ends on 30 June 20X1 and accordingly, there are no financial statements prepared for this period. Following the ATO guidance, the entity can lodge its GPFS for the financial year for the 15 months from 1 July 20X0 to 30 September 20X1 to achieve compliance with GPFS requirements. Alternatively, the GPFS for the period can be lodged with ASIC under the *Corporations Act 2001* and the entity would not have to lodge GPFS with the ATO.

### A.5.4 Newly incorporated entities

Updates to the ATO guidance in April 2019 clarify that whether a newly incorporated entity is captured by the GPFS requirements will depend on its financial year for financial reporting purposes and its income year for income tax purposes.

If the financial year and income year coincide, the GPFS requirements will be triggered at the end of the income year (assuming the criteria are met), even if that period is longer than 12 months. However, if the financial year is longer than the initial income year for income tax purposes, although there is a requirement to lodge an income tax return, there is no "financial year that can be said to correspond to the income year", and accordingly, there is no GPFS lodgement requirement in respect of this period.



#### Newly incorporated entities – Example

Company R is incorporated at the end of April 20X8 with a June financial year and meets the criteria to be a CBC reporting entity that is required to lodge GPFS with the ATO. In accordance with section 323D of the *Corporations Act 2001*, the entity chooses to adopt a 14 month financial year ending on 30 June of the year following incorporation (June 20X9). However, for tax purposes, the entity is required to lodge a tax return for the two month period to June 20X8. In this case, although the entity is required to prepare and lodge a tax return for the two month period, there is no financial year that ends on or before June 20X8, and accordingly, there is no requirement to lodge GPFS (assuming the criteria are met) in respect of that period.

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities



### A.6 Putting it all together

#### A.6.1 Deadlines for submitting GPFS to the ATO

The GPFS requirements require an affected entity to lodge their GPFS with the ATO on or before the day by which the entity is required to lodge its income tax return for the income year.

The due date for lodgement of an entity's tax return is generally the fifteenth day of the seventh month after the close of the accounting period (unless otherwise extended)<sup>14</sup>. For June balancing companies, this means that generally the due date for lodgement of GPFS with the ATO is 15 January of the subsequent calendar year<sup>15</sup>.

#### A.6.2 ATO's summary of entities affected

The table below, reproduced from the ATO guidance, outlines the broad categories of entities that may be impacted by the GPFS requirements. "You" in the table means the Australian taxpayer that may be subject to the GPFS requirements.

Type of scenario	GPFS obligation
1. You: <ul style="list-style-type: none"><li>Lodge a GPFS with ASIC within the stipulated time, or</li><li>Are a subsidiary member of an Australian tax consolidated group or MEC group, except where you enter or leave that group part-way through the income year</li></ul>	None.  <i>Note: Administrative relief for late lodgement with ASIC is available (see section A.3.7).</i>
2. You: <ul style="list-style-type: none"><li>Are required to lodge a GPFS with ASIC, but do not do so</li><li>Lodge SPFS with ASIC</li><li>Are required to prepare, but not lodge financial reports with ASIC (for example, grandfathered large proprietary companies), or</li><li>Are otherwise relieved from preparing financial reports by ASIC because your parent lodges consolidated financial statements prepared in accordance with Australian Accounting Standards (incorporating your financial position and performance) with ASIC.</li></ul>	You must give the ATO a GPFS prepared in accordance with Australian Accounting Standards.
3. You are an Australian resident for tax purposes, and you are: <ul style="list-style-type: none"><li>Not subject to the Corporations Act (for example, corporate limited partnerships)</li><li>Not subject to Part 2M.3 of that Act (for example, certain small proprietary companies), or</li><li>Otherwise relieved from preparing financial reports by ASIC because:<ul style="list-style-type: none"><li>You are a small proprietary company controlled by a foreign company that is not part of a large group, or</li><li>Your foreign parent lodges consolidated financial statements with ASIC, which are prepared in accordance with accounting standards applicable in your parent's home country.</li></ul></li></ul>	You must give the ATO a GPFS (stand-alone or consolidated) prepared in accordance with Australian Accounting Standards or other commercially accepted accounting principles (CAAP).
4. You are a foreign resident operating a permanent establishment (PE), and did not lodge a GPFS with ASIC <sup>16</sup> (for example, registered foreign companies).	In most circumstances, you are required to give the ATO a GPFS prepared in accordance with CAAP.

<sup>14</sup> A lodgement concession was available in the first year of compliance (see section A.4.8).

<sup>15</sup> June balancing companies that are not full self-assessment (NFSA) taxpayers are required to lodge their tax returns by the first day of the sixth month following the income year, being 1 December. There are various other lodgement dates that apply in various circumstances, e.g. where the entity is a new registrant, leaves a tax-consolidated group, were non-taxable or received a credit assessment in the latest year lodged, and are actually non-taxable or receiving a credit assessment in the current year, and various other circumstances. More information is available at [www.ato.gov.au](http://www.ato.gov.au). Each entity should ensure it understands its relevant lodgement date and for NFSA taxpayers whether and how they fall into these measures.

<sup>16</sup> This may be the case where an entity is a foreign entity but is not required to be registered under the *Corporations Act 2001* (e.g. certain foreign trusts operating a permanent establishment in Australia).



## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### A.6.3 Understanding options for compliance

The following table summarises the various types of corporate tax entities that may be captured by the GPFS requirements, and outlines the various options in the type of GPFS which should be submitted to the ATO in accordance with the ATO guidance (where the entity does not lodge GPFS with ASIC)<sup>17</sup>:

Type of corporate tax entity	GPFS prepared using Australian Accounting Standards		GPFS prepared using CAAP <sup>18</sup>	
	Taxpayer <sup>19</sup>	Parent <sup>20</sup>	Taxpayer <sup>19, 21</sup>	Parent <sup>20</sup>
Companies required to prepare financial statements under <i>Corporations Act 2001</i> <sup>22</sup> :				
- Not controlled by a parent	Yes	n/a	No	n/a
- Controlled by an Australian parent	Yes	Yes	No	No
- Controlled by a foreign parent	Yes	Yes	No	No
Large proprietary companies that are 'grandfathered' under former s.319(4) of the Corporations Law and so are not required to lodge financial reports with ASIC	Yes	Yes	No	No
Large proprietary companies that are 'grandfathered' under <i>ASIC Corporations (Exempt Proprietary Companies) Instrument 2015/840</i> and so are not required to lodge financial reports with ASIC	Yes	Yes	No	No
Wholly-owned subsidiary which is relieved from the requirement to prepare financial reports by <i>ASIC Corporations (Wholly owned Companies) Instrument 2016/785</i>				
- Holding entity is an Australian entity	Yes	Yes	No	No
- Holding entity is a registered foreign company	Yes	Yes <sup>23</sup>	Yes	Yes
Small foreign controlled proprietary companies which are relieved from the requirement to prepare financial reports by <i>ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204</i>	Yes	Yes	Yes	Yes

<sup>17</sup> This table excludes consideration of the transitional administrative approach available in the first year of compliance (see section A.4.8)

<sup>18</sup> See section A.4.7 for a discussion of CAAP

<sup>19</sup> The taxpayer can satisfy the GPFS requirements by lodging its own GPFS, either on a stand-alone basis (where permitted), or on a consolidated basis.

<sup>20</sup> Any GPFS of a parent lodged with the ATO must consolidate the Australian corporate tax entity that seeks to comply with the GPFS requirements, i.e. consolidated GPFS of the parent.

<sup>21</sup> Care should be exercised where there is a "Yes" in this column and the taxpayer is an Australian entity that might otherwise be caught by Chapter 2M.3 of the *Corporations Act 2001* but for exemptions within the Act itself, or through the operation of an ASIC Corporations Instrument. In the latter case, the ATO has clarified that GPFS do not need to be prepared in accordance with Australian Accounting Standards. Where the entity's own GPFS are lodged, whilst theoretically using other GAAPs may be possible, it may seem unusual for Australian entities to adopt other than Australian Accounting Standards in preparing GPFS. In these cases, the adoption of any alternative GAAP would need to meet the requirement that the basis is considered 'commercially accepted accounting principles related to accounting' for the purposes of the legislation.

<sup>22</sup> This requirement refers to the preparation and lodgement of financial reports under Part 2M.3 of the *Corporations Act 2001*. The *Corporations Act 2001* also contains other lodgement requirements, e.g. registered foreign companies are required to lodge certain information under s.601CK of the Act, and additional requirements apply in other situations including specific classes of entities and in relation to particular activities (such as raising funds from investors). Although the wording in the GPFS requirements refers to the lodgement requirements in s.319 of the *Corporations Act 2001*, the ATO guidance clarifies lodgement under Part 2M.3 or s.601CK is considered 'lodgement' for the purposes of the GPFS requirements.

<sup>23</sup> Although theoretically GPFS prepared using Australian Accounting Standards could be considered CAAP, in general it is expected that the GPFS will be prepared in accordance with the requirements applying to the entity in its home jurisdiction (which may be Australian Accounting Standards where the parent for which GPFS are prepared is incorporated in Australia).

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Type of corporate tax entity	GPFS prepared using Australian Accounting Standards		GPFS prepared using CAAP <sup>18</sup>	
	Taxpayer <sup>19</sup>	Parent <sup>20</sup>	Taxpayer <sup>19, 21</sup>	Parent <sup>20</sup>
Registered foreign companies operating a permanent establishment in Australia				
- Eligible for relief under <i>Corporations (Foreign-Controlled Company Reports) Instrument 2017/204</i>	Yes	Yes	Yes	Yes
- No requirement to prepare financial statements in home jurisdiction (i.e. subject to s.601CK(5), (5A), (6))	Yes	Yes	No	No
- Has a requirement to prepare financial reports in home jurisdiction	No <sup>24</sup>	No <sup>24</sup>	Yes	Yes
Public trading trusts or corporate limited partnerships:				
- Not controlled by a parent	Yes	n/a	n/a	n/a
- Controlled by an Australian parent	Yes	Yes	Yes	Yes
- Controlled by a foreign parent	Yes	Yes	Yes	Yes



### Common scenarios

We have developed several common scenarios illustrating which entities are required to prepare GPFS, for which entities GPFS can be lodged, and under which accounting standards. These scenarios can be found in [Appendix C](#).

The ATO guidance also includes several examples that are helpful in determining how to achieve compliance with the GPFS requirements.



### Thinking it through – Differences arising from the nature of the entity

The above table illustrates that any entity that is required to prepare financial reports under the *Corporations Act 2001* will not be able to lodge GPFS of any foreign parent using the basis of accounting applicable to that parent's financial statements (subject to the transitional administrative provisions in the first year of compliance).

Because the ATO guidance considers the Australian taxpayer to be the entity that triggers the GPFS requirements, the basis of accounting applicable to that entity under the *Corporations Act 2001* is relevant in determining what requirements apply, regardless of whether GPFS are prepared for the entity or a parent. It follows that Australian taxpayers that are not required to lodge financial reports under the *Corporations Act 2001* (including where due to ASIC relief) are not subject to these restrictions and accordingly, have more flexibility in determining the basis of accounting under which GPFS can be prepared.

<sup>24</sup> Although theoretically GPFS prepared using Australian Accounting Standards could be considered CAAP, in general it is expected that the GPFS will be prepared in accordance with the requirements applying to the entity in its home jurisdiction.

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# Part B – Preparing GPFS under Australian Accounting Standards

### Note on the use of other GAAPs

The information in this section applies only where the entity is preparing GPFS in accordance with Australian Accounting Standards. Where other GAAPs (referred to as 'CAAP' in the ATO guidance) are permitted in the preparation of the financial statements (see section A.4.7), this guidance will not apply and the requirements of the specific GAAP being applied should be considered instead.

## B.1 Definition of GPFS

'General purpose financial statements' are defined in AASB 101 *Presentation of Financial Statements* as "those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".

## B.2 Types of GPFS

### B.2.1 Two 'Tiers' of GPFS

AASB 1053 *Application of Tiers of Australian Accounting Standards* sets out how different categories of entities preparing GPFS apply the two 'Tiers' of GPFS. Both tiers apply the recognition and measurement requirements of all Australian Accounting Standards but differ in presentation and disclosure requirements.

Tier 1 (Australian Accounting Standards) incorporates all disclosures from IFRS issued by the International Accounting Standards Board (IASB) and includes requirements that are specific to Australian entities. Private sector for-profit entities applying Tier 1 make an unreserved statement of compliance with IFRS in the notes to the financial statements.

There are two types of Tier 2 GPFS, which can be applied depending on the reporting period and the entity's choices:

Tier 2 type	Mandatory application	Overview
<b>Australian Accounting Standards – Reduced Disclosure Requirements</b> ('Tier 2 (RDR)')	Annual reporting periods beginning <i>before</i> 1 July 2021	<p>Comprises of recognition and measurement requirements of Tier 1 but has substantially reduced disclosure requirements. In addition, all presentation requirements under Tier 1 are applied, except for the requirement in to present a third statement of financial position (when required).</p> <p>An entity applying Tier 2 may elect to comply with additional Tier 1 requirements. Tier 2 financial reports include a statement of compliance with 'Australian Accounting Standards – Reduced Disclosure Requirements' rather than IFRS</p>
<b>Australian Accounting Standards – Simplified Disclosures</b> ('Tier 2 (SD)')	Annual reporting periods beginning on or after 1 July 2021 ( <i>early adoption available</i> )	<p>A replacement for Australian Accounting Standards – Reduced Disclosure Requirements. A separate disclosure standard, AASB 1060 <i>General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i>, outlines all the presentation and disclosure required in Tier 2 GPFS, but additional disclosures can be included.</p> <p>AASB 1060 is based on the IASB's <i>International Financial Reporting Standard for Small- and Medium-Sized Entities</i> (the <i>IFRS for SMEs</i>). Tier 2 financial reports include a statement of compliance with 'Australian Accounting Standards – Simplified Disclosures' rather than IFRS.</p>



### Thinking it through – ATO guidance on tiers

The ATO guidance indicates that entities may have options in how compliance with the GPFS requirements is achieved. In doing so, the guidance explicitly mentions that an entity may be able to satisfy the requirements by providing GPFS prepared using Tier 2 reporting requirements. The ATO is **not** suggesting that only Tier 1 GPFS will be suitable for the purposes of the GPFS requirements (in fact, the guidance notes that only entities with public accountability *must* prepare Tier 1 GPFS). Although the ATO guidance provides an example of using Tier 2 (RDR), it is reasonable that Tier 2 (SD) will also be suitable for ATO purposes as they are acceptable under Australian Accounting Standards.

However, the ATO guidance also focuses on 'best practice' and notes that entities should consider how responding to options available to the entity "would best achieve the public transparency of your Australian affairs". This implies that the ATO is encouraging entities to focus on providing the most relevant and comprehensive information in preparing their GPFS, in order to comply with the 'spirit of the law'.

In some cases, this may mean entities choose to prepare Tier 1 GPFS where they are not otherwise required, or alternatively, provide additional information in their Tier 2 GPFS, e.g. more detailed information on income taxes, related party transactions and financial instruments, consistent with those provided in Tier 1 GPFS.

## B.2.2 Determining which Tier to apply

AASB 1053 outlines the categories of entities that are required to apply each tier. For-profit private sector entities that have public accountability and Australian Government, State, Territory and Local governments are required to comply with Tier 1 requirements. Other entities can choose to comply with Tier 1 or Tier 2 reporting requirements.

In relation to for-profit private sector entities, the key determinant of which reporting tier is to be applied depends on the public accountability concept. The definition deems a for-profit private sector entity to have public accountability in the following circumstances.

Definition inclusion	Examples
The entity's debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market*	Entities listed (debt or equity) on the Australian Securities Exchange (ASX), National Stock Exchange of Australia (NSX) or Bendigo Stock Exchange (BSX) or any global stock exchange Entities with American Depositary Receipts (ADRs) on issue Entities listed on the Alternative Investment Market (AIM) of the London Stock Exchange
The entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses <sup>25</sup>	Banks, credit unions, building societies, insurance companies, securities brokers/dealers, mutual funds and investment banks

\* A domestic or foreign stock exchange or an over-the-counter market, including local and regional markets

In addition to the definition, AASB 1053 specifies a number of entities that are deemed to have public accountability (AASB 1053.B2):

- Disclosing entities (as defined in the *Corporations Act 2001*), even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market
- Co-operatives that issue debentures
- Registered managed investment schemes
- Superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. III.E.1 Regulation of Small APRA Funds, December 2000
- Authorised deposit-taking institutions (ADIs).

<sup>25</sup> However, if an entity holds assets in a fiduciary capacity for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable (AASB 1053.B3).

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### Thinking it through – Which entity is preparing GPFS?

An entity with a foreign parent may wish to lodge GPFS of its foreign parent in order to meet the GPFS requirements, e.g. the foreign parent's financial information is being prepared using Australian Accounting Standards where the ATO guidance requires them to be applied (i.e. because the Australian entity has a requirement to prepare financial statements in accordance with Australian Accounting Standards).

In this case, care is needed when applying the guidance in AASB 1053 in determining which Tier can be applied. If the foreign parent meets the definition of 'public accountability', e.g. by being listed on a foreign stock exchange, it will meet the public accountability criteria and so be required to prepare Tier 1 GPFS, even though those GPFS are being lodged with the ATO by a CBC reporting entity that does not itself have public accountability.

## B.2.3 Understanding reduced disclosure requirements under Tier 2

### Tier 2 (RDR)

AASB 1057 *Application of Australian Accounting Standards* specifies the types of entities and financial statements to which Australian Accounting Standards apply. When necessary, each Australian Accounting Standard sets out disclosure requirements from which Tier 2 entities are exempt by shading the exempted requirements and adding special 'RDR' paragraphs.

Whilst there are numerous exceptions, the table below broadly summarises the disclosure matters generally retained and those omitted from the Tier 2 (RDR) requirements.

Disclosure items generally retained	Disclosure items generally omitted
<ul style="list-style-type: none"><li>• Format and layout of the primary financial statements</li><li>• Descriptions of accounting policies and methods</li><li>• Key amounts included in the financial statements, e.g. impairment and reversals, disaggregation of revenue, discontinuing operations, fair value adjustments, gains and losses</li><li>• Movement schedules, e.g. share-based payments, property, plant and equipment, intangible assets, goodwill, and investment property</li><li>• Reconciliations of key transactions and balances, e.g. business combination breakdowns, income tax expense and deferred tax balances</li><li>• Significant uncertainties and judgements</li><li>• Information about the entity and its related parties (but not always details of transactions and balances).</li></ul>	<ul style="list-style-type: none"><li>• Detailed narrative disclosure, e.g. nature and extent of risks arising from financial instruments under AASB 7, standards on issue but not yet effective</li><li>• Detailed information on how amounts have been measured, e.g. share-based payments, fair values</li><li>• Supplementary information about key transactions, balances and events, e.g. financial information about associates/joint ventures, alternate presentation of profit or loss information, impairment, defined benefit plan liabilities</li><li>• Many additional Australian disclosures, e.g. audit fees, franking credits, reconciliation of net operating cash flow to profit or loss</li><li>• Most disclosures required by Interpretations.</li></ul>

### Tier 2 (SD)

AASB 1060 sets out presentation and disclosure requirements applying in Tier 2 (SD) GPFS. Accordingly, the disclosure requirements of other Australian Accounting Standards are not required to be applied in Tier 2 (SD) and this is noted in each individual standard by stating disclosure requirements in the standard do not apply in Tier (SD) financial statements. However, the presentation requirements of a number of Australian Accounting Standards apply in Tier 2 (SD) GPFS, e.g. presentation of assets held for sale and discontinued operations under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and the classification of financial instruments in accordance with AASB 132 *Financial Instruments: Presentation*.

AASB 1060 is based on *IFRS for SMEs* and generally contains less disclosures than Tier 2 (RDR), although there are some disclosures included in AASB 1060 that are not required in Tier 2 (RDR) GPFS.

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Where a private sector for-profit entity is required to apply AASB 1060 when preparing financial reports under Part 2M.3 of the *Corporations Act 2001*, the entity would prepare and lodge those GPFS with ASIC and accordingly, would not have a further reporting obligation under s.3CA of the *Tax Administration Act 1953*.



### Thinking it through – Tier 2 focused on disclosure relief rather than recognition and measurement

It is important to recognise that entities applying Tier 2 (RDR or SD) in preparing GPFS are eligible to reduce the *disclosures* made in financial reports. It does not provide any relief from the *recognition* and *measurement* requirements of Australian Accounting Standards and accordingly, those requirements need to be fully complied with in preparing GPFS.

ASIC Regulatory Guide [RG 85](#) *Reporting requirements for non-reporting entities* notes that entities required to prepare financial reports under the *Corporations Act 2001* should adopt all recognition and measurement requirements of Australian Accounting Standards. Therefore, if SPFS have been prepared for the purposes of lodgement under the *Corporations Act 2001*, the basis used to recognise and measure the disclosures included in those GPFS should not change. However, compliance with Tier 2 will usually require increased disclosure and the financial statements may need to be prepared on a consolidated basis (when applicable).

## B.3 Comparison of various differential reporting frameworks

### B.3.1 Special purpose financial statements

In addition to GPFS, Australian Accounting Standards also contain the concept of 'special purpose financial statements' (SPFS) which can be prepared by an entity when it is not considered a 'reporting entity'. Many entities that are impacted by the GPFS requirements will previously have prepared SPFS or have prepared no financial statements at all.

However, for many private sector for-profit entities, the ability to prepare SPFS is removed with effect for reporting periods beginning on or after 1 July 2021. Impacted entities prepare and lodge GPFS with ASIC and therefore would not have a GPFS obligation under s.3CA of the *Tax Administration Act 1953*.



### Thinking it through – A critical difference: consolidation

Many SPFS are prepared on a 'stand-alone' basis covering only the individual entity and so do not consolidate the entity's subsidiaries. Many such entities moving to preparing GPFS will be required to present consolidated financial statements.

Consolidated GPFS will generally be required unless<sup>26</sup>:

- The entity is an investment entity (the GPFS will measure investments in subsidiaries on the fair value basis)
- The entity meets the criteria to avoid presenting consolidated financial statements in paragraphs 4(a)-Aus4.2 of AASB 10 *Consolidated Financial Statements*, including, among other requirements, that a parent prepares consolidated financial statements in accordance with Australian Accounting Standards or IFRS, and:
  - For financial periods beginning prior to 1 July 2021, the entity and group are not reporting entities
  - For financial periods beginning on or after 1 July 2021, the entity is not an ultimate Australian parent.

Where there is a requirement to present consolidated GPFS, there will often be a substantial increase in the level of effort required. This will include the preparation of information for subsidiaries to be included in the consolidation process, and other information needed for additional disclosures in the notes to the financial statements. This information would not be required in SPFS prepared on a stand-alone basis as investments in subsidiaries will be commonly measured on the cost basis.

<sup>26</sup> Note that the requirements for not-for-profit entities are different.

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### B.3.2 Differences between financial reporting frameworks

The table below illustrates, at a very high level, some of the differences between the various reporting frameworks to assist entities currently preparing SPFS to identify the broad areas where disclosure requirements may change on transition from SPFS to GPFS. Whilst not exhaustive or comprehensive, it illustrates some of the disclosure impacts of moving from SPFS to GPFS under Tier 1, Tier 2 (RDR) or Tier 2 (SD).

Element	Level of compliance under various frameworks			
	SPFS <sup>(1)</sup>	GPFS (Tier 2 SD)	GPFS (Tier 2 RDR)	GPFS (Tier 1)
Primary financial statements				
- Statement of profit or loss and other comprehensive income (one or two statements)	Full <sup>(2)</sup>	Full <sup>(3)</sup>	Full	Full
- Statement of income and retained earnings	Not permitted	In some cases	Not permitted	Not permitted
- Statement of financial position	Full <sup>(2)</sup>	Full	Full	Full
- Statement of changes in equity	Full <sup>(2)</sup>	Full <sup>(3)</sup>	Full	Full
- Statement of cash flows	Full <sup>(2)</sup>	Full	Full	Full
Breakdowns of material and significant balances into component parts (by way of notes)	Some	Full	Full	Full
General information about the entity	Full <sup>(2)</sup>	Full	Full	Full
Significant accounting policies	Full <sup>(2)</sup>	Full	Full	Full
Impact of new and revised Accounting Standards and Interpretations on issue but not yet adopted	Full <sup>(2)</sup>	None	None	Full
Critical accounting judgements and key sources of estimation uncertainty	Full <sup>(2)</sup>	Full	Full	Full
Information about the revenue of the entity	None	Full	Full	Full
Segment information	None	None <sup>(4)</sup>	None	In some cases
Information about income taxes	None	Some	Limited	Full
Information about discontinued operations and assets held for sale	Limited	Limited	Limited	Full
Information about specified components of profit or loss for the year	Limited	Limited	Limited	Full
Information about impairment losses	Limited	Limited	Limited	Full
Information about fair value measurements	None	Limited	Limited	Full
Earnings per share	None	None <sup>(4)</sup>	None	In some cases
Reconciliations of movements in non-current assets	None	Limited	Limited	Full
Information about investments in other entities	None	Limited	Limited	Full
Information about financial instruments (including risk management)	None	Limited	Limited	Full
Information about leases	None	Limited	Limited	Full
Information about defined benefit plans	None	Limited	Limited	Full
Information about related party transactions	None	Limited	Limited	Full
Information about share based payments	None	Limited	Limited	Full
Acquisitions and disposals of businesses	Full <sup>(2)</sup>	Limited	Limited	Full
Further information about cash	Full <sup>(2)</sup>	Limited	Limited	Full
Contingent liabilities and contingent assets	None	Limited	Limited	Full
Remuneration of auditors	Full <sup>(2)</sup>	Full	None	Full
Information about imputation (franking) credits	Full <sup>(2)</sup>	Full	None	Full

(1) Prepared for lodgement under Part 2M.3 of the *Corporations Act 2001*. Where necessary to provide a true and fair view of the financial report, additional information would be disclosed even if it was not explicitly required by a particular Australian Accounting Standard. In addition, AASB 101 *Presentation of Financial Statements* (which is applicable in SPFS) has certain overriding requirements in relation to judgements, estimates and additional information that result in additional disclosures in some cases.

(2) 'Full' in this context refers to the disclosure requirements of those Australian Accounting Standards which are mandatorily applicable in SPFS prepared to meet the requirements of Part 2M.3 of the *Corporations Act 2001* (AASB 1057.7). In particular, entities preparing SPFS are required



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to comply with AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards*, AASB 1053 *Application of Tiers of Australian Accounting Standards*, AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards*. In some cases, the requirements applying to GPFS will be more extensive in these topic areas due to additional requirements in other Australian Accounting Standards which are not mandatory in SPFS.

- (3) An entity may choose to present a statement of income and retained earnings in place of a statement of comprehensive income and a statement of changes in equity if the only changes to its equity during the periods for which financial statements are presented arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy (AASB 1060.26, 62).
- (4) An entity choosing to make these disclosures is required to apply the relevant standards in preparing and presenting the information: AASB 8 *Operating Segments*, AASB 133 *Earnings Per Share*, or where interim financial reports are prepared, AASB 134 *Interim Financial Reporting* (AASB 1060.33).



### Additional guidance – Australian financial reporting guide and model financial statements

More information about GPFS and the differential reporting framework applying in Australia can be found in our *Australian financial reporting guide*. We also have illustrative financial statements that illustrate the differences between Tier 1 and Tier 2 disclosures and illustrative GPFS prepared using AASB 1060. The guide and model financial statements are available at [www.deloitte.com/au/models](http://www.deloitte.com/au/models).

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## B.4 Practical considerations

### B.4.1 Need for comparative information

For GPFS prepared in accordance with Australian Accounting Standards, AASB 101 *Presentation of Financial Statements*, or AASB 1060 where Tier 2 (SD) is being applied, require comparative information to be presented in respect of the preceding period for all amounts reported in the current period's financial statements. In addition, comparative information for narrative and descriptive information is also generally required if it is relevant to understanding the current period's financial statements.

Accordingly, the need for comparative information applies regardless of whether Tier 1 or Tier 2 is applied. However, because the level of disclosure required under either Tier 2 is less than Tier 1, the amount of comparative information required will be correspondingly lower. In addition, Tier 2 often exempts or does not require comparative information in certain circumstances, e.g., comparative information is generally not required for movement schedules of balance sheet accounts such as property, plant and equipment (under both Tier 2 (RDR) and Tier 2 (SD)).

Accordingly, GPFS must contain comparative information in order to comply with Australian Accounting Standards. However, this does not apply for an entity's first financial year, i.e. the financial report prepared for the financial year in which the entity was incorporated. In addition, there is additional relief from some comparative requirements in AASB 1060 where Tier 2 (SD) is adopted prior to its mandatory application date (i.e. where AASB 1060 is applied to reporting periods beginning before 1 July 2021).



### Thinking it through – Entities which may trigger the GPFS requirements in one period but not another

Because the key determinant of whether an entity is captured by the GPFS requirements is the determination of annual global income (see section A.2.4), care needs to be taken where the annual global income threshold may be met in different periods, i.e. the affected taxpayer may exceed the threshold in one period but not the next (e.g. due to the inclusion of one-off gains in annual global income or the impacts of changes in exchange rates in translating foreign amounts to Australian dollars), or entities undertaking growth may expect to exceed the threshold in future periods.

Because of the requirements for comparative information in GPFS under AASB 101, or AASB 1060 where Tier 2 (SD) is applied, entities facing the possibility of needing to be in compliance should ensure the necessary systems are in place to capture comparative information in order to prepare their GPFS in any period where compliance with the GPFS requirements is required.

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### B.4.2 Requirement for audit

There is no explicit requirement arising under the GPFS requirements for GPFS that are lodged with the ATO under s.3CA of the *Tax Administration Act 1953* to be audited. However, the ATO guidance states that if an entity is required to have its GPFS or GPFS equivalent audited under another law, the audited version should be given to the ATO.

In addition, the ATO guidance contains a recommendation that entities ensure they develop and keep evidence to demonstrate that the GPFS have been prepared in accordance with Australian Accounting Standards or CAAP. Furthermore, the ATO considers it best practice where possible to have GPFS audited as a way of ensuring there is reliable evidence regarding its preparation.

The ATO guidance also notes that where a practitioner is engaged to compile financial statements under a compilation engagement, the practitioner is required to prepare them with professional competence and due care, and in accordance with the applicable financial reporting framework. The guidance goes on to note GPFS prepared under a compilation agreement will be at lower risk of non-compliance with the appropriate accounting standards but will not benefit from the same level of assurance as audited GPFS.

### B.4.3 Requirement for directors' report and directors' declaration

The ATO guidance states that a directors' declaration or directors' report is only required to be included in GPFS where required under the relevant accounting principles. As these requirements are imposed on Australian entities by Part 2M.3 of the *Corporations Act 2001*, this implies they are not required where Australian Accounting Standards are applied in preparing GPFS for lodgement with the ATO.

However:

- Where the GPFS being lodged to meet the GPFS requirements are subject to audit or review in accordance with the ATO best practice guidance, a declaration or similar statement may be necessary
- Where the entity seeks to avoid the GPFS requirements by lodging GPFS with ASIC as part of its obligations under Part 2M.3 of the *Corporations Act 2001* (see section A.3.5), a directors' report and directors' declaration would need to be included.

### B.4.4 Transitional requirements applying when moving to GPFS

Australian Accounting Standards contain detailed requirements on transitioning between SPFS and GPFS, and between Tier 1 and Tier 2 (RDR) or Tier 2 (SD) financial statements. These requirements are contained in AASB 1053 *Application of Tiers of Australian Accounting Standards*, AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Where Tier 2 (SD) is applied, there are specific transitional provisions in AASB 1060 and AASB 1053.

Under these requirements:

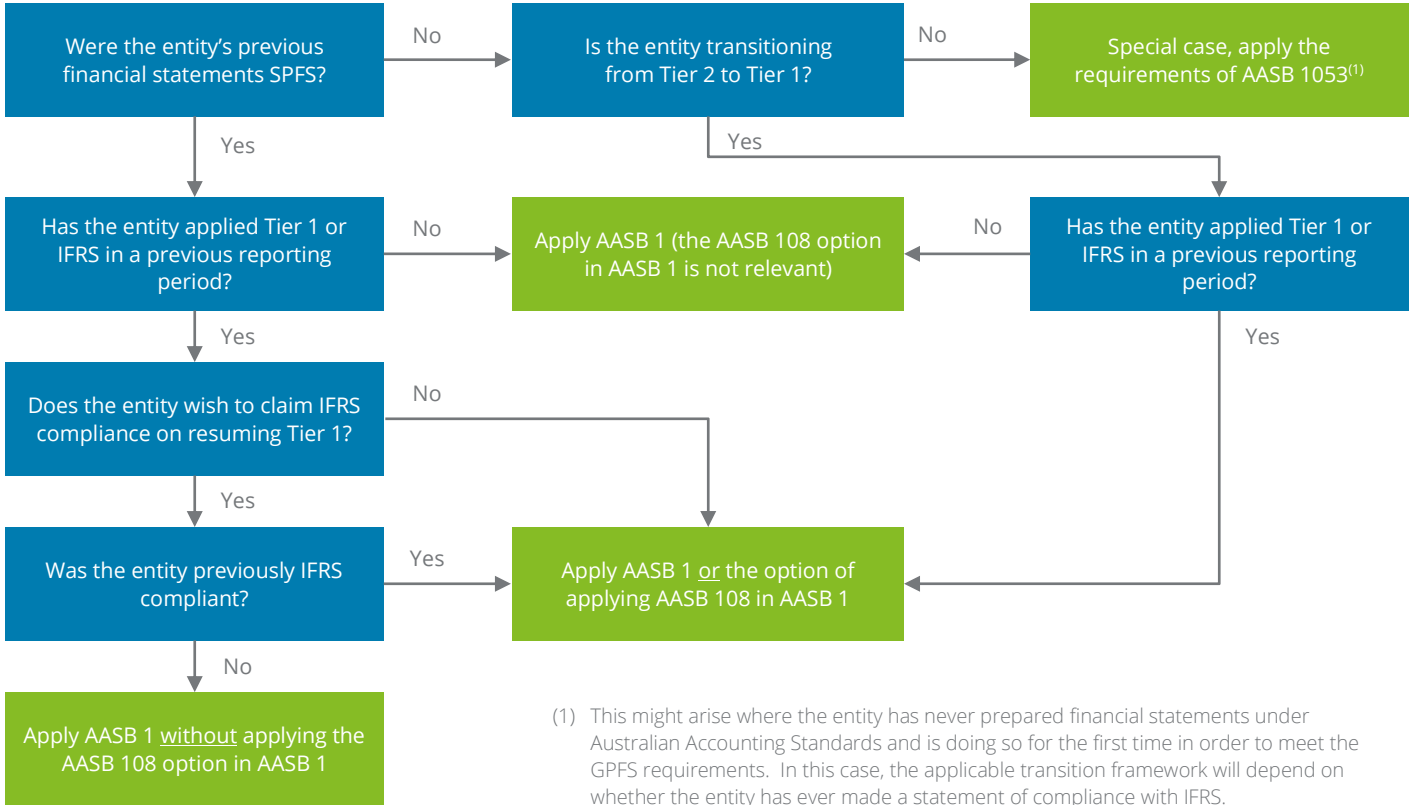
- The type and nature of transitional adjustments required depends on the type of financial report previously prepared, the Tier being adopted, and whether the entity has previously applied that Tier in prior periods (before the most recent period)
- If these requirements require or permit the entity to apply AASB 108 rather than AASB 1, full retrospective application of Australian Accounting Standards is required
- If these requirements require or permit the entity to apply AASB 1 rather than AASB 108, a modified retrospective application of Australian Accounting Standards usually results.

The exact determination of the nature of the requirements to apply can be complex. The flowcharts below provide a summary of the decision making process for most cases for for-profit private sector entities.

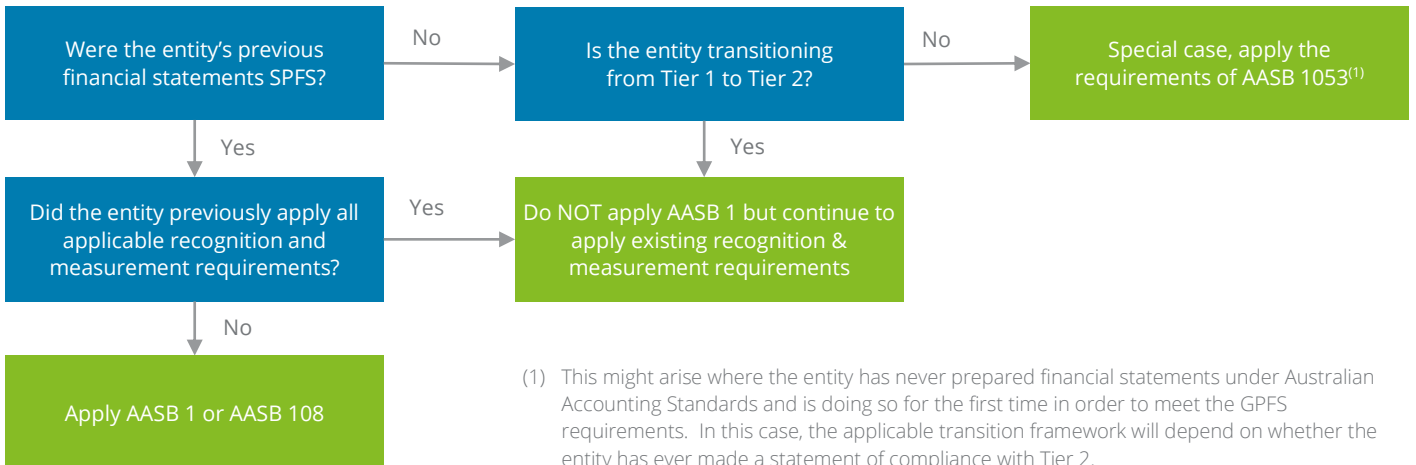
## Clarity in financial reporting

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### Adopting Tier 1



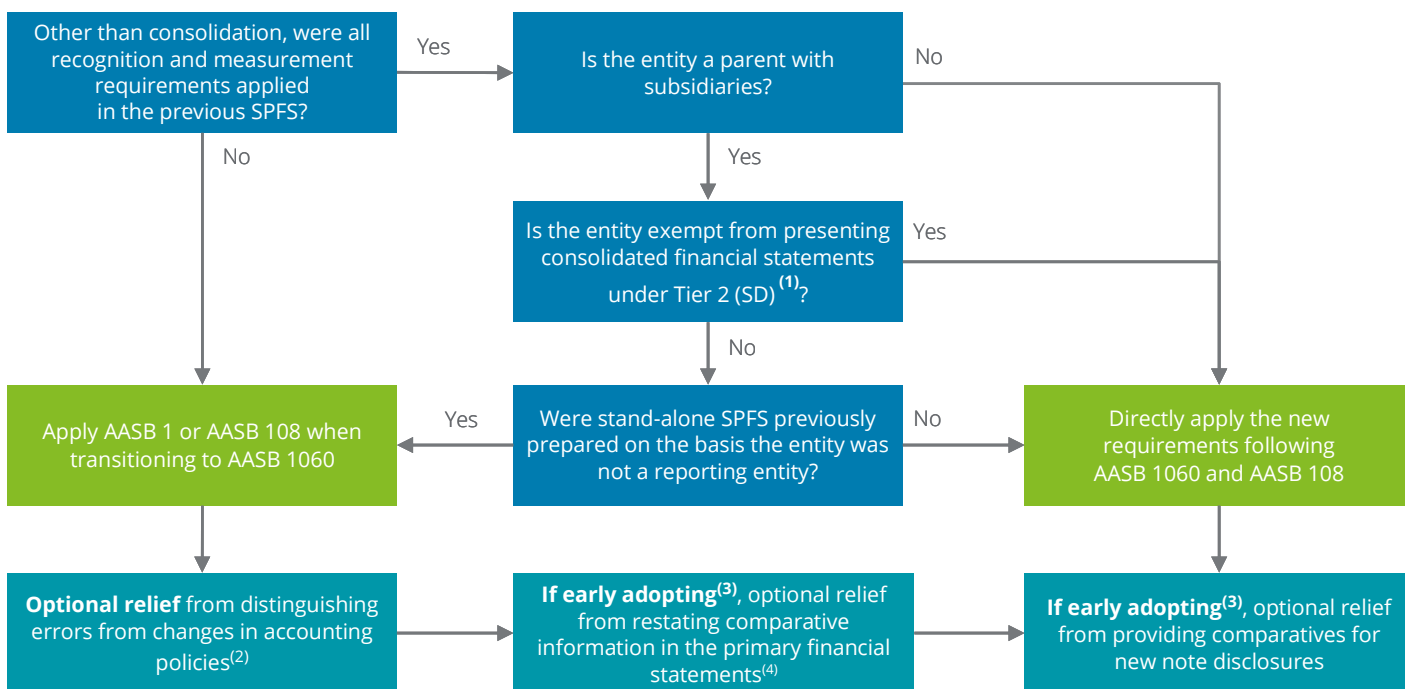
### Adopting Tier 2 (RDR)



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### Moving from SPFS to Tier 2 (SD)



(1) Not all entities that are parents are required to present consolidated financial statements when applying Tier 2 (SD). For example, if the entity is an investment entity that is not permitted to present consolidated financial statements under Tier 2 (SD), whether the entity was previously considered a reporting entity or not does not result in a new requirement to consolidate on Transition to Tier 2 (SD). Accordingly, such entities continue to measure their subsidiaries at fair value and cannot apply AASB 1. Similarly, entities are not required to present (but may choose to present) consolidated financial statements where they meet the requirements of paragraphs 4-Aus4.2 of AASB 10 *Consolidated Financial Statements*, including (among other requirements) that an ultimate or any intermediate parent produces financial statements available for public use that comply with International Financial Reporting Standards, Australian Accounting Standards or Australian Accounting Standards – Simplified Disclosures. However, an ultimate Australian parent must present consolidated financial statements in all cases, unless it is an investment entity, in which case it must measure all subsidiaries at fair value through profit or loss (AASB 10.Aus4.2).

(2) Only applies to periods beginning before 1 July 2022.

(3) AASB 1060 applies to annual reporting period beginning on or after 1 July 2021. The early adoption requirements would only apply where AASB 1060 is applied to a reporting period beginning before 1 July 2021.

(4) Relief from restating comparative information on early adoption is only available to a for-profit private sector entity that applies AASB 1 on transition. Where AASB 108 is being applied, comparative information must be fully restated.



### Understanding the Tier 2 (SD) framework in more detail

To understand the nature of the changes implemented by AASB 1060 and the entities affected, see our complimentary *Clarity in financial reporting* publications, [Removal of special purpose financial statements](#) and [Simplified Disclosures – transition options and opportunities](#), both available at [www.deloitte.com/au/clarity](http://www.deloitte.com/au/clarity).

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### Moving from stand-alone SPFS to consolidated Tier 2 (RDR) GPFS

Additional interpretational issues arise in applying AASB 1053 in situations where an entity is moving from preparing stand-alone SPFS to consolidated 'Tier 2' (RDR) GPFS. Similar issues may arise where an entity is applying the equity method for the first time.

Because the transitional requirements that apply depend upon whether the entity has previously applied all the recognition and measurement requirements of Australian Accounting Standards, the question arises as to whether consolidation is considered a recognition and measurement requirement, particularly where an entity previously otherwise applied all recognition and measurement requirements in its SPFS.

In our view, the application of consolidation principles in the financial report of the entity should trigger the requirements in AASB 1053 where all recognition and measurement requirements have not previously been applied<sup>27</sup>. Accordingly, an entity in this situation will have the choice of applying AASB 108 (full retrospective application) or AASB 1 (which among other requirements, permits certain transitional provisions in relation to previously unconsolidated subsidiaries).

The choice that each entity makes between AASB 108 and AASB 1 in these circumstances will depend on whether enough information is available to retrospectively restate the consolidated financial information included in the GPFS. In some cases, entities may not have prepared consolidated financial information in accordance with Australian Accounting Standards in the past, and the application of optional exceptions to full restatement in AASB 1 may be attractive. In other cases, the information will be available and the consolidated financial information may be more readily prepared.

### Moving from SPFS to Tier 2 (SD) GPFS

Entities moving from SPFS to Tier 2 (SD) GPFS have the following alternatives:

- Entities that have complied with all recognition and measurement requirements (including consolidation where relevant), are required to directly apply AASB 1060, including the restatement of comparatives in accordance with AASB 108 (unless eligible for the relief from comparatives for new note disclosure on early adoption). The recognition and measurement requirements do not change for these entities, they are not permitted any additional transitional relief, but will generally have additional disclosures
- Entities that have not fully complied with all recognition and measurement requirements are able to apply AASB 1 or AASB 108, and can take advantage of additional relief in either the first year of mandatory application (in respect of not being required to differentiate between changes in accounting policies and errors), or on early adoption (optional relief from the requirement to restate comparative information in the primary financial statements or provide comparatives for new disclosures in the notes)
- Entities required to prepare consolidated GPFS under Tier 2 (SD) where 'stand-alone' SPFS were previously prepared will have the option of applying AASB 1 or AASB 108 (even if the stand-alone SPFS otherwise complied with all recognition and measurement requirements). These entities are also entitled to optional additional relief in respect of new note disclosure on early adoption, and from differentiating between errors and changes in accounting policy (for reporting periods beginning before 1 July 2022).

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<sup>27</sup> There remains some uncertainty about how to apply AASB 1053 (or AASB 108) in these circumstances. The first-time preparation of consolidated financial statements may be seen as a 'new' set of financial statements (which would trigger the application of AASB 1 in all cases), or alternatively, the consolidated financial statements could apply the transitional provisions of AASB 10 *Consolidated Financial Statements*. Whilst we understand the preferred view is that AASB 108 or AASB 1 can be applied in these circumstances (as it is consistent with the approach taken for transition from SPFS to Tier 2 (SD)), there may be other views.

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Considering additional disclosures on transition (all scenarios)

An entity preparing GPFS for the first time need not only consider which Accounting Standards apply to the transition, but it also needs to consider the additional disclosures to be included in those GPFS.

Where AASB 1 is applied, there are a raft of disclosures to be considered in Tier 1 GPFS, including reconciliations from prior reported amounts. These disclosures are substantially less, but not eliminated, for 'Tier 2' (RDR) GPFS. Where Tier 2 (SD) is applied, AASB 1060 and AASB 1053 require specific transitional disclosures, and additionally, AASB 1053 provides some transitional relief where AASB 1060 is adopted early.

Similarly, where accounting policies change when applying AASB 108, additional disclosures are required under that Standard, or where AASB 1060 is applied, in accordance with that standard.

Even where full recognition and measurement requirements of all Australian Accounting Standards have been previously applied in preparing SPFS, additional disclosures are recommended to alert users of the GPFS of the change in presentation.



### Thinking it through - Understanding the differences between AASB 1 and AASB 108

The key difference between applying AASB 1 and AASB 108 is that AASB 1 contains a number of mandatory and optional exemptions from full retrospective application, including the use of estimates, business combination accounting, hedge accounting, classification and measurement of financial assets, embedded derivatives, and the use of fair value for deemed cost for the initial carrying amounts of certain assets.

The implications for entities preparing GPFS will vary depending on the nature of the financial statements (if any) previously prepared. The practical differences for entities previously preparing consolidated SPFS under Australian Accounting Standards may be limited, whereas entities previously preparing stand-alone financial statements (where consolidated GPFS are required) or choosing to lodge the financial statements of a foreign parent prepared in accordance with Australian Accounting Standards may face a greater transition hurdle in meeting the requirements of either standard (due to differences in recognition, measurement, presentation and disclosure requirements).

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## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### B.4.5 Converting GPFS of a parent to Australian Accounting Standards

#### Overview

The ATO guidance provides that an entity controlled by a foreign parent and having an obligation to lodge financial statements under the *Corporations Act 2001* (see section A.3.5) would need to prepare GPFS in accordance with Australian Accounting Standards<sup>28</sup>.

Private sector for-profit entities complying with Australian Accounting Standards can make an unreserved statement of compliance with IFRS. The differences between IFRS and Australian Accounting Standards are minor and do not undermine this ability to state compliance.

Accordingly, the ability of an entity to more easily convert the GPFS of a foreign parent to Australian Accounting Standards will most likely be applicable where the foreign parent's financial statements are prepared in accordance with IFRS or otherwise includes a statement of compliance with IFRS.

Where the foreign parent's financial statements are prepared using other commercially acceptable accounting principles (e.g. United States generally accepted accounting principles), the differences between those principles and Australian Accounting Standards may be significant and impose a substantial conversion burden in subsequent compliance periods (after the initial transitional approach adopted in the first compliance period).

#### Converting IFRS or IFRS-compliant financial statements to Australian Accounting Standards

As noted above, the easiest process of converting the GPFS of a foreign parent to Australian Accounting Standards will likely occur where a parent entity of an affected taxpayer prepares GPFS under IFRS, or makes an unreserved statement of compliance with IFRS.

In order to convert from IFRS or IFRS-compliant financial statements to Australian Accounting Standards, consideration would need to be given to a number of factors including:

- Specific Australian requirements included in Australian Accounting Standards on specific topics, e.g. accounting for Petroleum Resource Rent Tax under Interpretation 1003 *Australian Petroleum Resource Rent Tax*, tax-consolidation accounting under Interpretation 1052 *Tax Consolidation Accounting*, recognition and measurement of exploration and evaluation assets using an 'area of interest' approach under AASB 6 *Exploration for and Evaluation of Mineral Resources*
- Including any Australian specific disclosures, including under AASB 1054 *Additional Australian Disclosures* (may be less relevant if adopting Tier 2, see section B.2.3 above)
- Any relevant terminology differences, e.g. referring to Australian Accounting Standards rather than their international counterparts
- Considering any subsequent events that may have occurred between the date of finalisation of the international financial statements and when the local GPFS are finalised (from both a disclosure and adjustment process)
- Updating when the GPFS were approved for issue (as required by AASB 110 *Events After The Reporting Period*).

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<sup>28</sup> Subject to the transitional administrative approach in the initial year of compliance (see section A.4.8)



### Thinking it through – Converting parent entity financial statements

Although the option of converting a global parent's financial statements to comply with Australian Accounting Standards for lodgement with the ATO may be appealing in some cases, the amount and nature of the adjustments required to do so may limit its usefulness.

Because AASB 110 requires an entity to disclose the date when the financial statements were authorised for issue and who gave authorisation, this may impose constraints on who can and is willing to provide such authorisation. Local directors or management may not be willing to authorise consolidated financial statements containing information that relates to the greater group (which is effectively outside their control), and global management may be unwilling to do so when they do not understand the legal obligations imposed at a subsidiary level.

Furthermore, the requirements to gather information for the entire group in respect of any additional disclosures, and the consideration of subsequent events until the date of authorisation may make this approach difficult to apply in the absence of the information being collected with the wider group in advance. However, this option may be attractive for certain groups.

## B.4.6 Considering whether to lodge GPFS under the *Corporations Act 2001*

A corporate tax entity that is otherwise captured by GPFS requirements is only required to lodge GPFS with the ATO if it has *not* lodged GPFS with ASIC (see section A.3.5). Accordingly, some entities may choose to prepare and lodge GPFS under Part 2M.3 of the *Corporations Act 2001*, rather than preparing SPFS for ASIC purposes (where permitted)<sup>29</sup> and then preparing GPFS to lodge with the ATO. The preparation of two sets of financial statements for the same entity for the same period may raise additional considerations for directors and auditors.

However, adopting this approach may not be the most suitable approach in all cases. Set out below is a summary of some considerations to consider whether to lodge GPFS with ASIC:

- It only requires the preparation of one set of financial statements to effectively meet both requirements (i.e. by effectively eliminating the GPFS obligation arising under tax legislation)
- It eliminates, with some exceptions, the need to address remaining interpretational issues associated with the GPFS requirements
- It is only a consideration where the entity has a financial reporting obligation under Part 2M.3 of the *Corporations Act 2001*, and accordingly cannot be used where the entity is not required to prepare financial reports under those requirements (e.g. corporate partnerships, branches), or where relief from reporting requirements have been obtained<sup>30</sup>
- GPFS generally contain more information than SPFS and accordingly may take longer to prepare, potentially requiring system changes and greater information gathering (and so may not be ready in time to meet the requirements of *Corporations Act 2001*)
- The preparation of GPFS may require the presentation of consolidated information for the affected entity, which may effectively make public commercial and other information that has not previously been available in respect of the Australian entity compared to the lodgement of GPFS for a foreign parent (where this is available and able to be used)
- The deadline for compliance with GPFS requirements is generally later than financial reporting under the *Corporations Act 2001*, and accordingly, the time available to gather information and prepare GPFS may be reduced compared to lodging two different sets of financial statements
- GPFS lodged with ASIC are generally required to be subject to audit, whereas there is no explicit requirement for financial statements lodged under the GPFS requirements to be audited.

<sup>29</sup> Many private-sector for-profit entities required to prepare financial statements in accordance with Australian Accounting Standards (or under the legislation of the Federal, or State or Territory, government, required to prepare financial statements in accordance with 'accounting standards') are required to prepare GPFS with effect from 1 July 2021. For more information, see footnote 1.

<sup>30</sup> This may also apply where a registered foreign company is required under s.601CK(5), (5A) and (6) to prepare financial statements in accordance with Australian Accounting Standards.

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

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### Thinking it through – Effect of lodgement of GPFS

It is important to recognise that the GPFS lodged to comply with the GPFS requirements will be given to ASIC and will then become publicly available (requiring the payment of a fee in some cases). Accordingly, where the entity is required to lodge GPFS, that information will be available and can be requested by the public, whether it has been lodged directly with ASIC or via the ATO. Therefore, for Australian corporate tax entities that do not have the option of lodging the GPFS of a foreign parent entity, the GPFS will always become publicly available whether lodged with ASIC or the ATO, other than that the timeline for lodgement with the ATO is usually later under the GPFS requirements.

However, as noted in the consideration points above, CBC reporting entities with a foreign parent may choose to lodge consolidated GPFS of the parent instead of the local Australian corporate tax entity in some cases. However, this ability will need to be tempered by the requirement to prepare the consolidated financial statements of the parent in accordance with Australian Accounting Standards, which may require substantial effort in many cases as the information required may need to be sourced from more than the local Australian entity or Australian controlled entities.

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## Conclusion

Compliance with the GPFS requirements may require a significant effort by entities, particularly where SPFS have been previously prepared, or no financial statements have been prepared at all.

Entities affected by the GPFS requirements need to:

- Understand the requirements, including the updated ATO guidance
- Consider the impacts of the changes in tax legislation in May 2020 (and the subsequent additional and updated ATO guidance issued in response in December 2020)
- Develop a strategy to meet them within the required timeframes.

Given the 2020 tax legislation changes were enacted after the first reporting period to which it applied had begun (income years or periods commencing on or after 1 July 2019), compliance can be challenging and require detailed analysis.

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### Important note

The information in this publication has been prepared based on the updated ATO' guidance issued on 22 December 2020. This guidance may be further refined in due course. Accordingly, impacted entities should closely monitor ATO developments to ensure no additional or changed interpretational aspects or issues arise.

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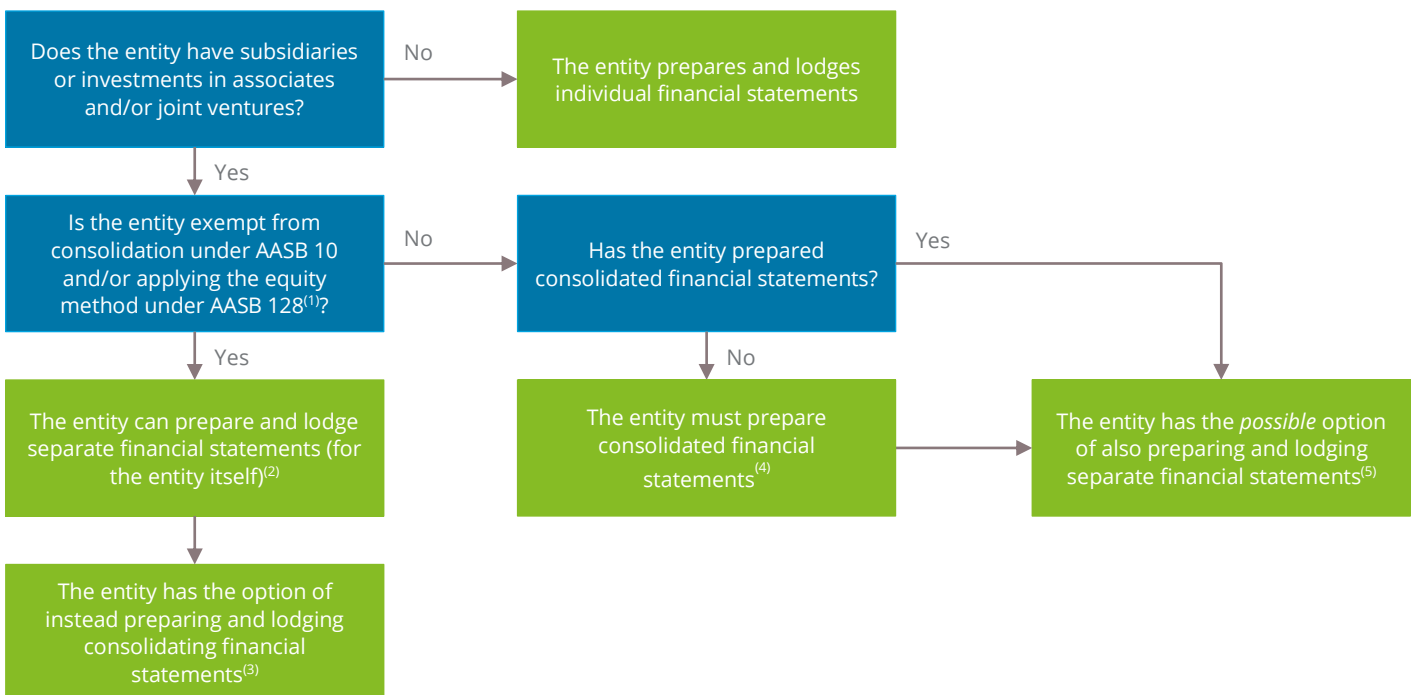


## Appendix A – Determining when ‘stand-alone GPFS’ can be lodged under the GPFS requirements

AASB 127 *Separate Financial Statements* permits an entity to prepare separate financial statements in certain circumstances. Separate financial statements are those presented by an entity in which the entity could elect, subject to the requirements of the Standard, to account for its investments in subsidiaries, joint ventures and associates either at cost, in accordance with AASB 9 *Financial Instruments* (or AASB 139 *Financial Instruments: Recognition and Measurement*), or using the equity method described in AASB 128 *Investments in Associates and Joint Ventures*. In other words, GPFS prepared as separate financial statements are not prepared on a consolidated basis.

Separate financial statements are those presented **in addition** to consolidated financial statements, or in addition to the financial statements of an investor without subsidiaries but with interests in associates or joint ventures. In some cases, separate financial statements may be presented as the only financial statements for an entity. An entity that does not have any subsidiaries or investments in associates and/or joint ventures does not prepare *separate* financial statements, but instead prepares *individual* financial statements for the entity itself.

The flowchart below explains when the affected taxpayer (referred to as the ‘entity’) can lodge separate financial statements in order to comply with the GPFS requirements. This flowchart does not apply to entities operating permanent establishments (see instead the discussion on page 19).



- (1) The requirements for the exemption are set out in paragraphs 4(a), Aus4.1 and Aus4.2 of AASB 10 and paragraphs 17, Aus17.1 and Aus17.2 of AASB 128. This requires, among other factors, that the financial statements of the foreign parent be prepared in accordance with IFRS. In addition, investment entities applying the consolidation exemption to all their subsidiaries under paragraph 31 of AASB 10 are also exempt from consolidation. Most private sector for-profit ultimate Australian parent entities are required to prepare consolidated financial statements from reporting periods beginning on or after 1 July 2021
- (2) These must be prepared as GPFS if being lodged under the GPFS requirements. Where Tier 1 GPFS are prepared, additional disclosure is required under paragraph 16 of AASB 127 where the consolidation exemption has been used, including that the exemption has been used, the entity whose consolidated financial statements complying with IFRS have been produced for public use and the address where those consolidated financial statements are obtainable. Nevertheless, the parent's consolidated financial statements need to be available. The ATO guidance also notes this requirement
- (3) Investment entities applying the consolidation exemption to all their subsidiaries under paragraph 31 of AASB 10 are not permitted to prepare consolidated financial statements
- (4) These consolidated financial statements could conceivably be prepared as SPFS (where permitted) if the entity is not a reporting entity (and is not captured by the requirement to prepare GPFS applying to many private sector for-profit entities from 1 July 2021). If the consolidated financial statements are to be lodged under the GPFS requirements, they must be prepared as GPFS
- (5) Entities electing to prepare and lodge separate financial statements in these circumstances should first consider the 'best practice' guidance outlined in the ATO guidance, specifically that the entity consider "how each option would best contribute to the transparency of your Australian affairs". In addition, Example 8 of the ATO guidance notes that consolidated financial statements "would typically be presented as additional columns alongside the stand-alone financial statements". The consolidated financial statements must still be prepared and available if requested, and directors and auditors may need to consider the implications of having two sets of financial statements for the same entity for the same period.



### Thinking it through – Not preparing consolidated financial statements

Under AASB 10 *Consolidated Financial Statements*, an entity is not required to present consolidated financial statements where, among other requirements, a parent prepares and lodges financial statements in accordance with IFRS (or Australian Accounting Standards) and, if the entity is an ultimate Australian parent, the entity (or group) is not a reporting entity<sup>31</sup>. This may be available where an Australian company has a foreign parent, or where such an entity has foreign subsidiaries itself.

However, caution should be exercised in applying the exemption in AASB 10 in these circumstances:

- The entity would need to be able to illustrate that it clearly is not a reporting entity, and this is a contentious area with significant political and other pressure being applied (and the AASB has changed these requirements with effect from 1 July 2021)
- Not presenting consolidated financial statements may result in unwanted scrutiny from media and others if it is not considered to be within the 'spirit of the law' and the ATO 'best practice' guidelines to determining which option of compliance with GPFS requirements best achieve public transparency of the Australian entities affairs
- Without consolidated financial statements of the ultimate Australian parent entity, any taxpayer subsidiaries of that entity may also be captured by the GPFS requirements and so be required to prepare and lodge GPFS, which may substantially increase the workload required to ensure compliance with the GPFS requirements. This is because the subsidiary could otherwise lodge the consolidated GPFS of the ultimate Australian parent in meeting the GPFS requirements<sup>32</sup>.

The ATO guidance also explicitly notes the choice provided by s.3CA(5)(b) to give the ATO either a stand-alone or sub-group consolidated GPFS. In addition, the guidance notes entities that are parents which are not exempt under AASB 10 can give stand-alone GPFS if the entity also complies with AASB 127 *Separate Financial Statements*, including any requirement to present consolidated financial statements.

It is important to note that most private sector for-profit ultimate Australian parent entities are required to prepare consolidated GPFS for reporting periods beginning on or after 1 July 2021. This requirement applies even if the ultimate Australian parent entity would otherwise qualify for the consolidation exemption in paragraph 4(a) of AASB 10.

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<sup>31</sup> The reporting entity concept is eliminated for most private-sector for-profit entities for periods beginning on or after 1 July 2021 and accordingly, those entities that are required to prepare financial statements are required to prepare GPFS for those periods. However, an Australian entity will not be required to prepare *consolidated* GPFS if an Australian parent prepares consolidated GPFS and other requirements are met (e.g. where the entity is not wholly-owned by the Australian parent preparing consolidated GPFS, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements). For details of the specific requirements, see paragraphs 4-Aus4.2 of AASB 10).

<sup>32</sup> Where the entity has a foreign parent, it could choose to lodge consolidated GPFS of the foreign parent with the ATO. However, in many cases those GPFS would be required to be prepared in accordance with Australian Accounting Standards (i.e. where the entity is required to prepare its financial statements in accordance with Australian Accounting Standards).

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

# Appendix B – Frequently asked questions

## Background

This appendix sets out several commonly asked questions about the GPFS requirements and ensuring compliance with them. In addition to the responses below, you should read this document in its entirety, and the ATO guidance.

### Determining which entities are impacted

#### ***Do all members of a tax-consolidated group or multiple entry consolidated (MEC) group need to lodge under the GPFS requirements?***

Generally, no. Only a taxpayer can be captured by the GPFS requirements, and the ATO guidance explicitly notes that members of tax-consolidated group are not considered taxpayers and so are not required to lodge GPFS (see section A.3.2). However, where entities join or leave tax-consolidated or MEC groups during an income year, the requirement may be triggered where the entity joining or leaving is a taxpayer for part of the income year (see section A.3.4).

#### ***How does an Australian entity that is jointly controlled by other entities determine whether it is captured by the GPFS requirements?***

The jointly controlled entity needs to assess whether it meets the criteria in its own right. In other words, it does not consider the annual global income of its owners, but considers the amount of annual global income it recognises in its own financial statements (or on a consolidated basis if it has subsidiaries). The amount of income of its owners is not relevant as it is not controlled by another entity. In addition, each joint venturer would be required to undertake equity accounting of the joint venture when determining their own annual global income and in relation to a joint operation, the entity would include in its annual global income its share of the income of the joint arrangement. See also section A.2.4 and Scenario 5 in Appendix C.

#### ***What is the relevant date to determine whether an entity is captured by the GPFS requirements?***

In general, the relevant date is the end of the relevant income year. If the entity meets the requirements to be a CBC reporting entity at that date (even if determined by reference to the annual global income shown in the global financial statements of its parent for an earlier period, see section A.2.3), it will be subject to the GPFS requirements (unless it has lodged GPFS with ASIC). Complications can arise where an entity joins or leaves a consolidated group during an income year (see section A.3.4 and the ATO examples included in the ATO guidance).

#### ***How do the GPFS requirements apply in an entity's first financial year?***

Whether a newly incorporated entity is captured by the GPFS requirements will depend on its financial year for financial reporting purposes and its income year for income tax purposes. If the financial year and income year coincide, the GPFS requirements will be triggered at the end of the income year (assuming the criteria are met), even if that period is longer than 12 months. However, if the financial year is longer than the initial income year, although there is a requirement to lodge an income tax return, there is no "financial year most closely corresponding to the income year" and the GPFS requirements would only apply in the subsequent year (see section A.5.4).

## Preparing GPFS

#### ***Can Tier 2 (RDR) or Tier 2 (SD) be used to prepare GPFS lodged under the GPFS requirements?***

Yes, so long as the entity for which GPFS are being prepared meets the criteria to apply Tier 2 in preparing its financial statements (see section B.2.2). Care needs to be taken when GPFS of a parent are being lodged, because the parent's status is used to determine which tier can be applied.

#### ***Do GPFS require comparative information?***

Generally, yes. For GPFS prepared in accordance with Australian Accounting Standards, comparative information must be provided (see section B.4.1).

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### **Can the GPFS for a permanent establishment be prepared for the PE itself?**

No. The ATO guidance says that the GPFS must be for the foreign resident (i.e. the entire entity) conducting business through an Australian permanent establishment (PE) and so cannot be stand-alone GPFS for the Australian PE itself (i.e. part of the entity) (see section A.6.3)

### **Do GPFS need to be audited?**

It depends. The ATO guidance states that there is no explicit requirement for audit under the GPFS requirements but recommends an audit as best practice. In addition, if the GPFS are otherwise required to be audited under another law, the audited GPFS should be given to the ATO. See also section B.4.2.

### **Where the entity's accounting year end is not 30 June, can the GPFS be prepared for the accounting financial year?**

It depends. Although there is some uncertainty in the way the GPFS requirements are worded, the ATO guidance states that 'financial year' for entities subject to Chapter 2M of the *Corporations Act 2001* should be read as meaning the financial year as defined in section 323D of that Act. Accordingly, entities subject to the *Corporations Act 2001* in these circumstances can prepare GPFS for their financial year for accounting purposes. Other corporate tax entities (i.e. those not subject to Chapter 2M) will need to refer to the definition of 'financial year' for the purposes of the GPFS requirements. See also section A.5.

### **Where can I find more guidance on preparing GPFS?**

In addition to Part B of this publication, further information about preparing GPFS can be found in our *Australian financial reporting guide* and *Model financial statements*, both available at [www.deloitte.com/au/models](http://www.deloitte.com/au/models).

## Lodging GPFS

### **I have already lodged SPFS with ASIC. Can I lodge GPFS with ASIC and avoid having to lodge under the GPFS requirements?**

Potentially. The ATO guidance includes administrative relief where an entity lodges GPFS with ASIC after the deadlines in section 319(3) of the *Corporations Act 2001*, but before the due date for lodgement of the entity's tax return. Accordingly, it may be possible to lodge GPFS with ASIC, but relevant corporations law requirements would need to be considered before doing so.

### **Do I have to lodge with both the ATO and ASIC?**

It depends. Where the entity is required to lodge financial reports under the *Corporations Act 2001* and is also required to lodge with the ATO under the GPFS requirements (e.g. where the entity has lodged SPFS with ASIC), then the GPFS will have to be lodged with the ATO. However, the GPFS required to be lodged with the ATO under the GPFS requirements are only required to be lodged with the ATO in accordance with the ATO guidelines (and do not also have to be lodged with ASIC by the entity) but will be given to ASIC by the ATO (see also 'Thinking it through' in section B.4.6).

### **Can I lodge GPFS for a parent where the parent has a different financial year to the Australian corporate entity?**

Yes, the ATO guidance states this is possible. It is important to note that the lodged GPFS must generally be for a period that ends on or before the end of the entity's income year for tax purposes. For example, if an entity has a December year end but its (foreign) parent prepares GPFS for its March year end, the parent's GPFS that are lodged will be for the March ending *during* the income year, rather than the March ending *after* the income year (see section A.5.2). This means that for a 31 December 20X2 year end of the Australian entity, the parent's GPFS would be lodged for 31 March 20X1.

### **What are the obligations of government-related entities?**

Government-related entities that are tax exempt are not required to lodge a GPFS if they don't lodge an income tax return or are subject to the National Tax Equivalent Regime. The ATO advises that government-related entities as defined by *A New Tax System (Goods and Services Tax) Act 1999* can also be excluded from the requirement to provide a GPFS if the Commissioner gives them a notice in writing stipulating that section 3CA does not apply to them for one or more of the applicable income years. The Commissioner, in reaching this decision, will consider if it is appropriate to do so upon receiving a request. Government-related entities can request that the Commissioner consider their circumstances by writing to [SGE@ato.gov.au](mailto:SGE@ato.gov.au).

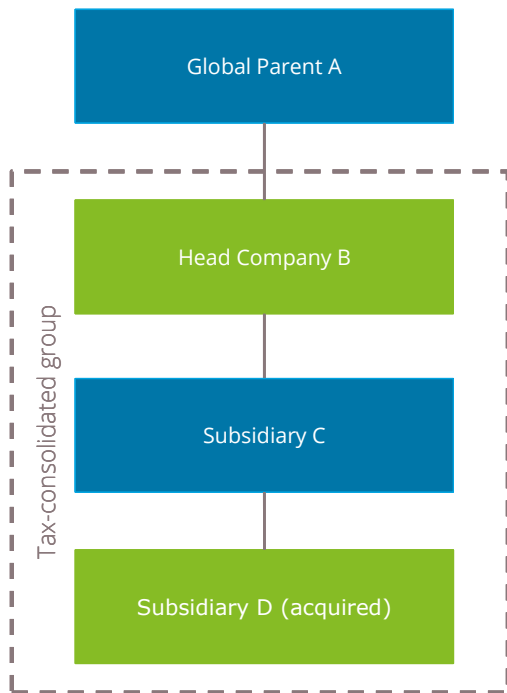
## Appendix C – Common scenarios

### Background

This appendix sets out several common scenarios where an entity may have an obligation to lodge GPFS under the GPFS requirements, together with the ways in which compliance might be achieved. For the purposes of this Appendix, the transitional provisions permitted for income years beginning on or after 1 July 2016 are ignored.

In this Appendix, entities that have, or may have, an obligation to lodge GPFS are coloured green.

### Scenario 1 – Foreign owned tax-consolidated groups



#### **Fact pattern**

An Australian company, Head Company B, has two subsidiaries (Subsidiary C and Subsidiary D) and has formed a tax-consolidated group with Head Company B as the head entity. Subsidiary D has been acquired during the year and was a taxpayer in its own right prior to being acquired and joining the tax-consolidated group.

All Australian entities are CBC reporting entities due to the consolidated annual global income of their parent, Global Parent A, exceeding A\$1 billion. Each company lodges stand-alone SPFS under Part 2M.3 of the *Corporations Act 2001*.

#### **Which entities are required to lodge GPFS with the ATO?**

The ATO guidance clarifies that only taxpayers can be subject to the GPFS requirements. Therefore, Head Company B (as the head entity of the tax-consolidated group) will be required to lodge GPFS.

In addition, because Subsidiary D was a taxpayer for part of the income year prior to being acquired, the ATO guidance explains that it is also required to lodge GPFS.

#### **What basis of accounting is used to prepare the GPFS?**

Because Head Company B and Subsidiary D are incorporated under the *Corporations Act 2001*, and have a reporting obligation under that Act, the GPFS must be prepared in accordance with Australian Accounting Standards.

#### **Which GPFS can be lodged?**

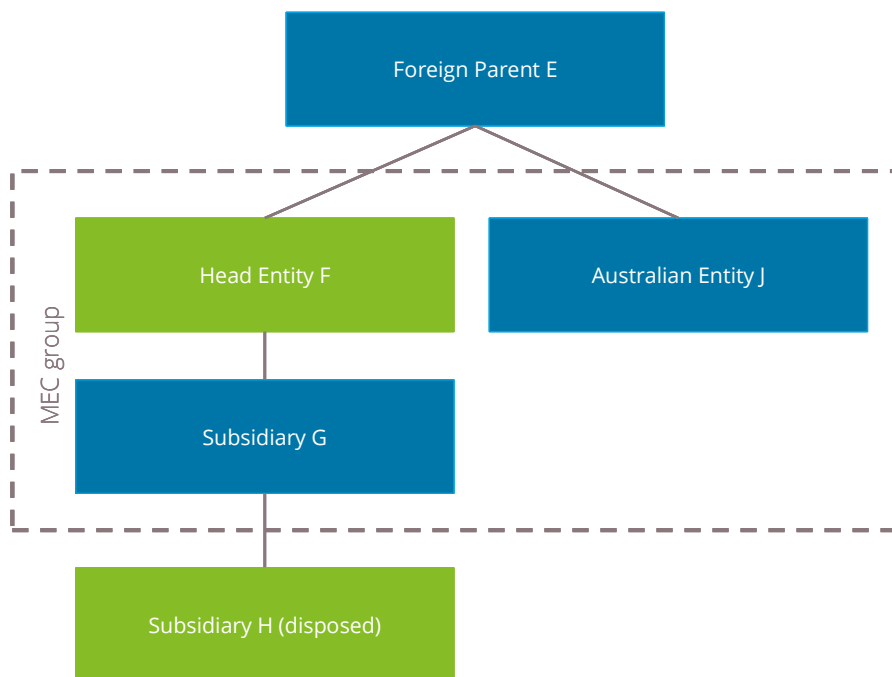
The following table summarises which GPFS can be lodged with the ATO:

Entity	Options for lodgement
<b>Head Entity B</b>	<ul style="list-style-type: none"> <li>• Own GPFS (consolidated or on a stand-alone basis in some cases)</li> <li>• Consolidated GPFS of Global Parent A (must be prepared in accordance with Australian Accounting Standards)</li> </ul>
<b>Subsidiary D</b>	<ul style="list-style-type: none"> <li>• Own GPFS</li> <li>• Consolidated GPFS of Head Company B</li> <li>• Consolidated GPFS of Global Parent A (must be prepared in accordance with Australian Accounting Standards)</li> <li>• Consolidated GPFS of Subsidiary C</li> </ul>

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Scenario 2 – Multiple entry consolidated (MEC) groups



#### **Fact pattern**

Foreign Parent E has two direct subsidiaries in Australia, Head Entity F and Australian Entity J. Head Entity F has a subsidiary, Subsidiary G. Subsidiary G previously held an interest in Subsidiary H, which was disposed during the year.

The Australian entities have formed a multiple entry consolidated (MEC) group for tax purposes, with Head Entity F being the head entity in the group.

All Australian entities are CBC reporting entities due to the consolidated income of their parent, Foreign Parent E exceeding A\$1 billion. Each entity lodges stand-alone SPFS under Part 2M.3 of the *Corporations Act 2001*.

#### **Which entities are required to lodge GPFS with the ATO?**

The ATO guidance clarifies that only taxpayers can be subject to the GPFS requirements. Therefore, Head Company F (as the head entity of the tax-consolidated group) will be required to lodge GPFS.

In addition, Subsidiary H may potentially trigger an obligation to lodge GPFS if it becomes a taxpayer in its own right and its annual global income exceeds A\$1 billion (i.e. in its own right) so that it is a CBC reporting entity. If Subsidiary H immediately joins another MEC group or a tax-consolidated group (and is not the head entity of that group), then it will not be a taxpayer and therefore cannot be captured by the GPFS requirements.

#### **What basis of accounting is used to prepare the GPFS?**

Because Head Entity F and Subsidiary H (if a CBC reporting entity) are incorporated under the *Corporations Act 2001*, and have a reporting obligation under that Act, the GPFS must be prepared in accordance with Australian Accounting Standards.

#### **Which GPFS can be lodged?**

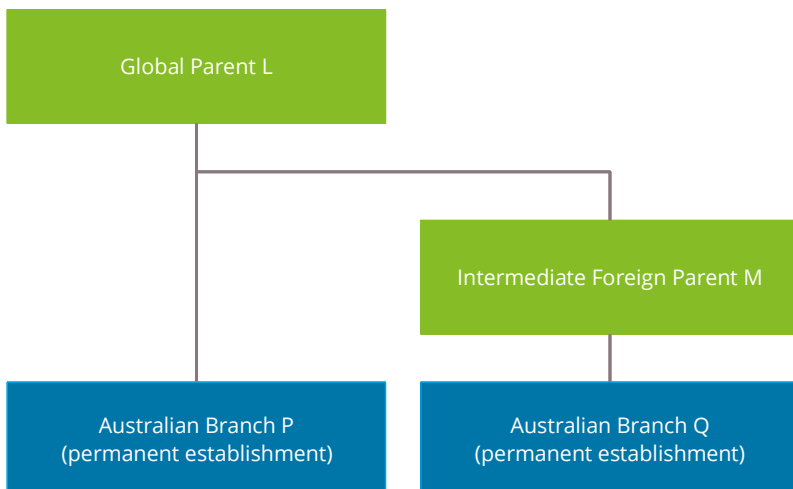
The following table summarises which GPFS can be lodged with the ATO:

Entity	Options for lodgement
<b>Head Entity F</b>	<ul style="list-style-type: none"> <li>Own GPFS (consolidated or on a stand-alone basis in some cases)</li> <li>Consolidated GPFS of Foreign Parent E (must be prepared in accordance with Australian Accounting Standards)</li> </ul>
<b>Subsidiary H</b>	<ul style="list-style-type: none"> <li>Depends upon whether it meets the definition of a CBC reporting entity (in its own right or as part of another group) and is a corporate tax entity</li> </ul>

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Scenario 3 – Permanent establishments



#### Fact pattern

Global Parent L and its subsidiary, Intermediate Foreign Parent M, are foreign resident entities for Australian tax purposes.

Each entity operates an Australian branch that are permanent establishments for tax purposes and are CBC reporting entities due to the consolidated annual global income of Global Parent L exceeding A\$1 billion.

Global Parent L is a registered foreign company under the *Corporations Act 2001*. Intermediate Foreign Parent M is not registered.

There is no requirement for the preparation of GPFS for Global Parent L in its home jurisdiction and accordingly, the entity prepares and lodges a balance sheet, profit or loss statement and cash flow statement with ASIC under subsections 601CK(5), (5A) and (6) of the *Corporations Act 2001*. Intermediate Foreign Parent M does not lodge any financial information with ASIC.

#### Which entities are required to lodge GPFS with the ATO?

The GPFS requirements are extended by section 3CA(1)(b)(ii) to include “a foreign resident who operates an Australian permanent establishment”. Accordingly, because the relevant income thresholds are met (i.e. Global Parent L and Intermediate Foreign Parent M are CBC reporting entities), both entities are required to prepare and lodge GPFS with the ATO. The ATO guidance takes the view that the foreign taxpayer is the relevant “entity” for purposes of the GPFS requirements, and accordingly the GPFS *cannot* be prepared for Australian Branch P or Australian Branch Q, i.e. it is not appropriate to prepare stand-alone branch financial statements.

#### What basis of accounting is used to prepare the GPFS?

Global Parent L is a registered foreign company and has a reporting obligation under section 601CK of the *Corporations Act 2001*. Because it does not have any requirement to prepare financial reports in its home jurisdiction, subsections (5), (5A) and (6) requires each financial statement to be prepared “containing the particulars and including the documents that the company would have been required to prepare if the company were a public company registered under this Act”. This means that those financial statements are prepared in accordance with Australian Accounting Standards (as a public company would be required to prepare the financial statements in accordance with those standards). Accordingly, in accordance with the ATO guidance, any GPFS lodged for Global Parent L must be prepared in accordance with Australian Accounting Standards.

Intermediate Foreign Parent M does not have a reporting obligation under the *Corporations Act 2001*, and accordingly it may prepare its financial statements in accordance with CAAP.

#### Which GPFS can be lodged?

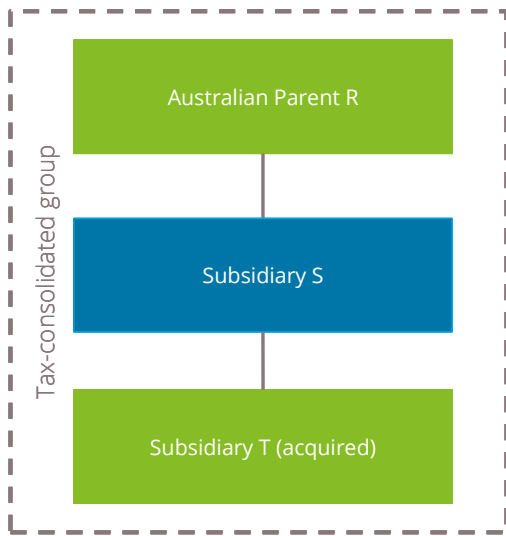
The following table summarises which GPFS can be lodged with the ATO:

Entity	Options for lodgement
Australian Branch P	<ul style="list-style-type: none"><li>GPFS of Global Parent L (must be in accordance with Australian Accounting Standards)</li></ul>
Australian Branch Q	<ul style="list-style-type: none"><li>GPFS of Intermediate Foreign Parent M (prepared in accordance with CAAP)</li><li>Consolidated GPFS of Global Parent L (prepared in accordance with CAAP)</li></ul>

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Scenario 4 – Australian grandfathered groups



#### Fact pattern

Australian Parent R is a grandfathered exempt proprietary company which prepares, but does not lodge, financial reports under the *Corporations Act 2001*. Australian Parent R is also the head entity in a tax-consolidated group.

Subsidiary S is owned by Australian Parent R and is also a grandfathered exempt proprietary company.

Subsidiary T was acquired in the current income year by Subsidiary S and was a taxpayer prior to being acquired. Subsidiary T is a small proprietary company and accordingly, does not lodge financial reports under the *Corporations Act 2001*.

Australian Parent R is a CBC reporting entity due to the consolidated annual global income of the group (even if all that income is generated in Australia).

#### Which entities are required to lodge GPFS with the ATO?

The ATO guidance clarifies that only taxpayers can be subject to the GPFS requirements. Therefore, Australian Parent R (as the head entity of the tax-consolidated group) will be required to lodge GPFS.

In addition, because Subsidiary T was a taxpayer prior to being acquired, the ATO guidance explains that it is also required to lodge GPFS.

#### What basis of accounting is used to prepare the GPFS?

Australian Parent R is incorporated under the *Corporations Act 2001*, and is required to prepare, but not lodge, a financial report under that Act, the GPFS must be prepared in accordance with Australian Accounting Standards.

Although Subsidiary T does not have a reporting obligation under the *Corporations Act 2001*, because it is incorporated under that Act, any GPFS it lodges should also be in accordance with Australian Accounting Standards.

#### Which GPFS can be lodged?

The following table summarises which GPFS can be lodged with the ATO:

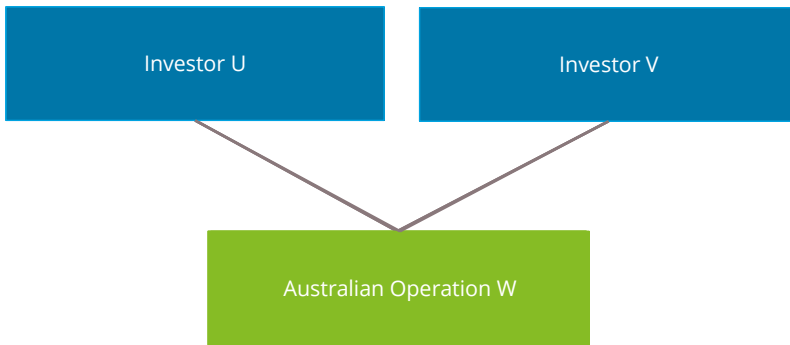
Entity	Options for lodgement
<b>Australian Parent R</b>	<ul style="list-style-type: none"> <li>Own GPFS (consolidated or on a stand-alone basis in some cases)</li> </ul>
<b>Subsidiary T</b>	<ul style="list-style-type: none"> <li>Own GPFS</li> <li>Consolidated GPFS of Australian Parent R</li> <li>Consolidated GPFS of Subsidiary S</li> </ul>



## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Scenario 5 – Joint arrangements



#### **Fact pattern**

Two foreign entities, Investor U and Investor V, form a joint arrangement in Australia, Australian Operation W.

The investors have joint control over Australian Operation W, i.e. it is accounted for as a joint venture or joint operation under AASB 11 *Joint Arrangements*, rather than being consolidated by any entity under AASB 10 *Consolidated Financial Statements* (or equivalent accounting requirements where Australian Accounting Standards do not apply to Investor U and Investor V).

Australian Operation W is a resident taxpayer, is a company incorporated under the *Corporations Act 2001*, and lodges SPFS with ASIC.

Both investors would be CBC reporting entities in their own right but do not have permanent establishments in Australia.

#### **Which entities are required to lodge GPFS with the ATO?**

Australian Operation W is the relevant corporate tax entity for which the assessment of whether it is a CBC reporting entity is required. In making this assessment, Australian Operation W would *not* consider the annual global income of Investor U and Investor V. This is because neither of those entities control Australian Operation W.

Accordingly, the only time that Australian Operation W would be required to lodge GPFS with the ATO is if it is a CBC reporting entity in its own right. In making this assessment, the annual global income of Australian Operation W would be determined, including any subsidiaries of Australian Operation W.

#### **What basis of accounting is used to prepare the GPFS?**

In the event Australian Operation W is a CBC reporting entity in its own right, it must prepare GPFS for itself. It cannot lodge GPFS of Investor U or Investor V as those GPFS (if prepared) do not consolidate Australian Operation W.

Because Australian Operation W is required to lodge financial reports under the *Corporations Act 2001*, it must prepare its GPFS in accordance with Australian Accounting Standards in the event the entity is a CBC reporting entity.

#### **Which GPFS can be lodged?**

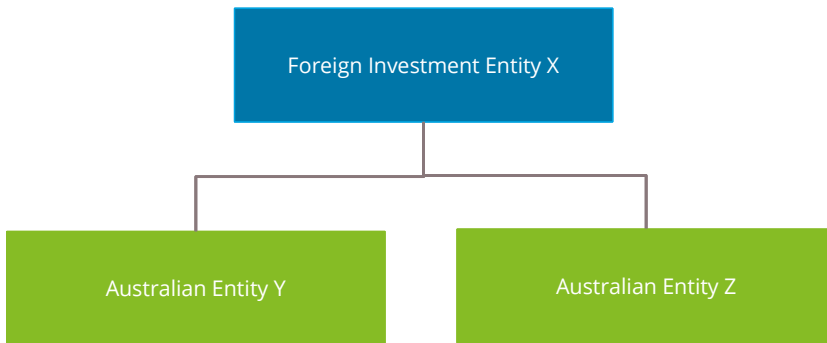
The following table summarises which GPFS can be lodged with the ATO:

Entity	Options for lodgement
Australian Operation W	<ul style="list-style-type: none"><li>Own GPFS (only if its own annual global income is A\$1 billion or more)</li></ul>

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Scenario 6 – Entities controlled by an investment entity



#### **Fact pattern**

Foreign Investment Entity X is a foreign investment entity with investments in numerous jurisdictions, including two Australian incorporated and controlled entities, Australian Entity Y and Australian Entity Z.

Foreign Investment Entity X does not operate in, and has no other operations in, Australia. It is a non-resident for Australian taxation purposes.

Under the accounting framework applying in its jurisdiction, Foreign Investment Entity X is exempt from consolidating Australian Entity Y and Australian Entity Z due to an exemption equivalent to the investment entity consolidation exemption in AASB 10 *Consolidated Financial Statements*.

Australian Entity Y and Australian Entity Z are incorporated under the *Corporations Act 2001*, have annual income in excess of A\$500 million but less than A\$1 billion and lodge tax returns as Australian resident entities.

#### **Which entities are required to lodge GPFS with the ATO?**

None. The GPFS requirements apply to CBC reporting entities which have annual global income in excess of A\$1 billion. For the purposes of determining the group for which this income is determined, the entity only considers those entities which are *consolidated* under relevant accounting standards.

As Australian Entity Y and Australian Entity Z are not consolidated by Foreign Investment Entity X, they are each potential CBC reporting parents in their own right. However, as each entity's annual global income is less than A\$1 billion, they are not CBC reporting entities and accordingly, are not required to comply with the GPFS requirements under taxation law (the entities may however be required to prepare financial statements under the *Corporations Act 2001*).

In the event one of the entity's annual income exceeded A\$1 billion, it would be a CBC reporting entity and would be required to lodge its own GPFS with either ASIC or the ATO. However, the other entity would not be a CBC reporting entity and would not have a GPFS obligation for taxation purposes.

Furthermore, Foreign Investment Entity X does not operate in Australia and so cannot have a GPFS obligation under taxation law as it is not an Australian taxpayer.

#### **What other considerations are relevant?**

It is important that Australian Entity Y and Australian Entity Z consider whether they are significant global entities for taxation law purposes. Although they are not CBC reporting entities, it is likely that they are significant global entities because for the purpose of the significant global entity definition, the investment entity consolidation exemption is ignored.

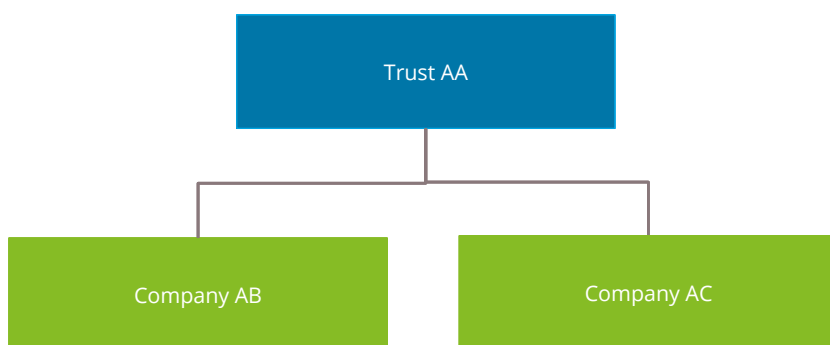
Because the aggregate annual income of Australian Entity Y and Australian Entity Z exceeds A\$1 billion, it is likely that they are significant global entities, particularly when Foreign Investment Entity X also controls operations in other countries.

Being a significant global entity does not impose any additional financial reporting obligations on the entities, it does change the classification of the entities for taxation purposes, including being subject to the significant penalties applying to significant global entities for non-compliance with taxation law.

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Scenario 7 – Groups headed by non-corporate structures



#### **Fact pattern**

Trust AA is the parent entity of a group with two subsidiaries, Company AB and Company AC. Trust AA is not an investment entity for accounting purposes and is not a public trading trust for tax purposes.

Trust AA is not required to prepare financial statements under its constituting document or legislation. Company AB and Company AC are both incorporated under the *Corporations Act 2001* and are required to prepare and lodge financial statements under that Act.

The aggregate annual income of the three entities is A\$1.2 billion. A tax-consolidated group has not been formed.

#### **Which entities are required to lodge GPFS with the ATO?**

Because the annual global income of the entities is in excess of A\$1 billion, each of the entities is a CBC reporting entity, with Trust AA being the CBC parent entity of the CBC reporting group.

In making this assessment, the fact that Trust AA has no requirement to prepare financial statements does not change the outcome. In these circumstances, the 'notional listed company group' (NLCG) provisions would require the determination of the annual global income as if Trust AA was a listed entity. The annual global income will therefore include the consolidated annual income of Trust AA, Company AB and Company AC.

However, only Company AB and Company AC are 'corporate tax entities' under tax legislation, and accordingly, only those entities can have a GPFS requirement. If these entities do not lodge GPFS with ASIC under the *Corporations Act 2001*, they will be required to lodge GPFS with the ATO.

All three entities will be subject to the other CBC reporting entity provisions of tax legislation (country by country reporting obligations to the ATO) and will also be significant global entities subject to the significant global entity penalty provisions.

#### **What basis of accounting is used to prepare the GPFS?**

Because Company AB and Company AC are both required to lodge financial reports under the *Corporations Act 2001*, any GPFS lodged with the ATO must be prepared in accordance with Australian Accounting Standards.

#### **Which GPFS can be lodged?**

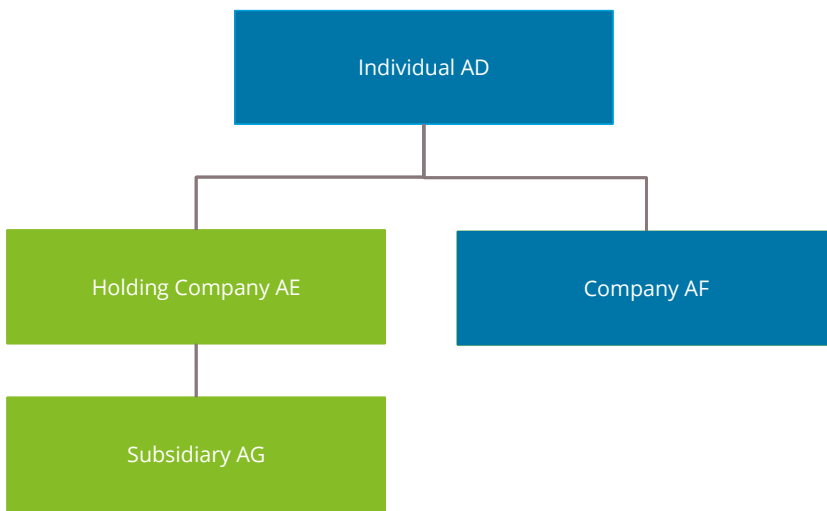
The following table summarises which the entities for which GPFS can be lodged with the ATO:

Entity	Options for lodgement
Company AB	<ul style="list-style-type: none"><li>• Own GPFS (prepared in accordance with Australian Accounting Standards)</li><li>• Consolidated GPFS of Trust AA (prepared in accordance with Australian Accounting Standards)</li></ul>
Company AC	<ul style="list-style-type: none"><li>• Own GPFS (prepared in accordance with Australian Accounting Standards)</li><li>• Consolidated GPFS of Trust AA (prepared in accordance with Australian Accounting Standards)</li></ul>

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Scenario 8 – Entities controlled by an individual



#### Fact pattern

Individual AD wholly owns and controls two entities, Holding Company AE and Company AF. Holding Company AE wholly owns Subsidiary AG.

Holding Company AE, Company AF and Company AG are all incorporated under the *Corporations Act 2001* and are required to prepare and lodge financial statements under that Act and are also Australian corporate tax entities.

The aggregate annual income of Holding Company AE and Subsidiary AG is A\$1.7 billion. Company AF's annual income is A\$400 million.

No tax-consolidated groups have been formed.

#### Which entities are required to lodge GPFS with the ATO?

Because the annual global income of Holding Company AE (including the consolidation of Subsidiary AG) is in excess of A\$1 billion, these entities are CBC reporting entities, with Holding Company AE being the CBC parent entity of the CBC reporting group. In making this assessment, the ownership of Individual AD and their other controlled entity, Company AF, are ignored. In these circumstances, the 'notional listed company group' (NLCG) provisions do not apply for the purposes of determining whether the entities are CBC reporting entities.

As Holding Company AE and Subsidiary AG are corporate tax entities, they may have a GPFS requirement. If these entities do not lodge GPFS with ASIC under the *Corporations Act 2001*, they will be required to lodge GPFS with the ATO.

Similarly, Company AF has annual global income of less than A\$1 billion (in its own right), and it is not a CBC reporting entity and does not have a GPFS requirement.

However, all three corporate entities will be significant global entities as individual AD can be the global parent entity of the global group for these purposes and the consolidated annual global income of Individual AD exceeds A\$1 billion. Accordingly, each corporate entity is subject to the significant global entity penalty (and other) provisions.

#### What basis of accounting is used to prepare the GPFS?

Because Holding Company AE and Subsidiary AG are both required to lodge financial reports under the *Corporations Act 2001*, any GPFS lodged with the ATO must be prepared in accordance with Australian Accounting Standards.

#### Which GPFS can be lodged?

The following table summarises which the entities for which GPFS can be lodged with the ATO:

Entity	Options for lodgement
Holding Company AE	<ul style="list-style-type: none"><li>Own GPFS (prepared in accordance with Australian Accounting Standards)</li></ul>
Subsidiary AG	<ul style="list-style-type: none"><li>Own GPFS (prepared in accordance with Australian Accounting Standards)</li><li>Consolidated GPFS of Holding Company AE (prepared in accordance with Australian Accounting Standards)</li></ul>

## Clarity in financial reporting

Understanding the GPFS requirements for CBC reporting entities

### Contacts

**Anita Simich**

**Director**

asimich@deloitte.com.au

**Frank Betkowski**

**Principal**

fbetkowski@deloitte.com.au

**Debbie Hankey**

**Principal**

dhankey@deloitte.com.au

**Peta McFarlane**

**Director, Tax**

pmcfarlane@deloitte.com.au

**Alison White**

**Partner**

aliswhite@deloitte.com.au

**Anna Crawford**

**Partner**

acrawford@deloitte.com.au

**Clive Mottershead**

**Partner**

cmottershead@deloitte.com.au

**Henri Venter**

**Partner**

hventer@deloitte.com.au

**Moana Overton**

**Partner**

moverton@deloitte.com.au

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